

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the quarterly period ended June 30, 2012

or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the transition period from \_\_\_\_ to \_\_\_\_

Commission File Number: 0-22175



**EMCORE Corporation**

(Exact name of registrant as specified in its charter)

New Jersey

22-2746503

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

10420 Research Road, SE, Albuquerque, New Mexico, 87123

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (505) 332-5000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x **Yes**  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). x **Yes**  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definition of "large accelerated filer", "accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act.  Large accelerated filer x **Accelerated filer**  Non-accelerated filer  
 Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).  Yes x **No**

As of August 3, 2012, the number of shares outstanding of our no par value common stock totaled 24,060,945.

**CAUTIONARY STATEMENT  
REGARDING FORWARD-LOOKING STATEMENTS**

This Quarterly Report on Form 10-Q includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Exchange Act of 1934. These forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are largely based on our current expectations and projections about future events and financial trends affecting the financial condition of our business. Such forward-looking statements include, in particular, projections about our future results included in our Exchange Act reports, statements about our plans, strategies, business prospects, changes and trends in our business and the markets in which we operate. These forward-looking statements may be identified by the use of terms and phrases such as “anticipates”, “believes”, “can”, “could”, “estimates”, “expects”, “forecasts”, “intends”, “may”, “plans”, “projects”, “should”, “targets”, “will”, “would”, and similar expressions or variations of these terms and similar phrases. Additionally, statements concerning future matters such as the development of new products, enhancements or technologies, sales levels, expense levels, and other statements regarding matters that are not historical are forward-looking statements. Management cautions that these forward-looking statements relate to future events or our future financial performance and are subject to business, economic, and other risks and uncertainties, both known and unknown, that may cause actual results, levels of activity, performance, or achievements of our business or our industry to be materially different from those expressed or implied by any forward-looking statements. Factors that could cause or contribute to such differences in results and outcomes include without limitation those discussed under Item 1A - Risk Factors in our Annual Report on Form 10-K for the fiscal year ended September 30, 2011, as updated by our subsequent periodic reports. These cautionary statements apply to all forward-looking statements wherever they appear in this Quarterly Report.

Neither management nor any other person assumes responsibility for the accuracy and completeness of any forward-looking statement. All forward-looking statements in this Quarterly Report are made as of the date hereof, based on information available to us as of the date hereof, and subsequent facts or circumstances may contradict, obviate, undermine, or otherwise fail to support or substantiate such statements. We caution you not to rely on these statements without also considering the risks and uncertainties associated with these statements and our business that are addressed in this Quarterly Report. Certain information included in this Quarterly Report may supersede or supplement forward-looking statements in our other reports filed with the Securities and Exchange Commission. We assume no obligation to update any forward-looking statement to conform such statements to actual results or to changes in our expectations, except as required by applicable law or regulation.

EMCORE Corporation  
FORM 10-Q  
For the Quarterly Period Ended June 30, 2012

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**PART I. Financial Information**  
**ITEM 1. Financial Statements**

**EMCORE CORPORATION**  
**Condensed Consolidated Statements of Operations and Comprehensive Loss**  
**For the Three and Nine Months Ended June 30, 2012 and 2011**  
(in thousands, except loss per share)  
(unaudited)

|   | For the Three Months Ended<br>June 30, |             | For the Nine Months Ended<br>June 30, |             |
|---|--|-------------|---------------------------------------|-------------|
|   | 2012                                   | 2011        | 2012                                  | 2011        |
| Revenue   | \$ 41,062                              | \$ 49,480   | \$ 116,293                            | \$ 148,805  |
| Cost of revenue                                       | 36,677                                 | 40,010      | 103,064                               | 116,075     |
| Gross profit  | 4,385                                  | 9,470       | 13,229                                | 32,730      |
| Operating expense (income):                           |  |             |                                       |             |
| Selling, general, and administrative                  | 8,758                                  | 9,657       | 24,603                                | 27,301      |
| Research and development                              | 4,996                                  | 9,549       | 17,757                                | 24,724      |
| Impairment  | 1,425                                  | —           | 1,425                                 | —           |
| Litigation settlements, net                           | 1,050                                  | 1,465       | 1,050                                 | (1,125)     |
| Flood-related loss (recovery)                         | (293)                                  | —           | 5,519                                 | —           |
| Flood-related insurance proceeds                      | —                                      | —           | (5,000)                               | —           |
| Gain on sale of assets                                | (2,793)                                | —           | (2,793)                               | —           |
| Total operating expense                               | 13,143                                 | 20,671      | 42,561                                | 50,900      |
| Operating loss  | (8,758)                                | (11,201)    | (29,332)                              | (18,170)    |
| Other income (expense):                               |  |             |                                       |             |
| Interest expense, net                                 | (146)                                  | (132)       | (396)                                 | (520)       |
| Foreign exchange gain (loss)                          | (196)                                  | 625         | 60                                    | 1,039       |
| Loss from equity method investment                    | —                                      | (259)       | (1,201)                               | (846)       |
| Change in fair value of financial instruments         | 61                                     | (107)       | (90)                                  | (1,417)     |
| Other expense   | —                                      | (5)         | —                                     | (15)        |
| Total other income (expense)                          | (281)                                  | 122         | (1,627)                               | (1,759)     |
| Loss before income tax expense                        | (9,039)                                | (11,079)    | (30,959)                              | (19,929)    |
| Foreign income tax expense on capital distributions   | —                                      | —           | (1,644)                               | —           |
| Net loss  | \$ (9,039)                             | \$ (11,079) | \$ (32,603)                           | \$ (19,929) |
| Foreign exchange translation adjustment               | 9                                      | (304)       | 434                                   | (612)       |
| Comprehensive loss                                    | \$ (9,030)                             | \$ (11,383) | \$ (32,169)                           | \$ (20,541) |
| <b>Per share data:</b>                                |  |             |                                       |             |
| Net loss per basic share                              | \$ (0.38)                              | \$ (0.49)   | \$ (1.39)                             | \$ (0.91)   |
| Net loss per diluted share                            | \$ (0.38)                              | \$ (0.49)   | \$ (1.39)                             | \$ (0.91)   |
| Weighted-average number of basic shares outstanding   | 23,686                                 | 22,461      | 23,441                                | 21,858      |
| Weighted-average number of diluted shares outstanding | 23,686                                 | 22,461      | 23,441                                | 21,858      |

**The accompanying notes are an integral part of these condensed consolidated financial statements.**

**EMCORE CORPORATION**  
**Condensed Consolidated Balance Sheets**  
**As of June 30, 2012 and September 30, 2011**  
**(in thousands, except per share data)**  
**(unaudited)**

|   | <b>As of<br/>June 30,<br/>2012</b> | <b>As of<br/>September 30,<br/>2011</b> |
|---|------------------------------------|---|
| <b>ASSETS</b>   |                                    |   |
| Current assets:   |                                    |   |
| Cash and cash equivalents   | \$ 20,245                          | \$ 15,598                               |
| Restricted cash   | 571                                | 544                                     |
| Accounts receivable, net of allowance of \$3,262 and \$3,332, respectively  | 30,726                             | 34,875                                  |
| Inventory   | 38,938                             | 33,166                                  |
| Prepaid expenses and other current assets   | 9,421                              | 7,168                                   |
| Total current assets  | 99,901                             | 91,351                                  |
| Property, plant, and equipment, net   | 46,923                             | 46,786                                  |
| Goodwill  | 20,384                             | 20,384                                  |
| Other intangible assets, net  | 3,745                              | 5,866                                   |
| Equity method investment  | —                                  | 2,374                                   |
| Other non-current assets, net of allowance of \$3,371 and \$3,641, respectively   | 4,476                              | 3,537                                   |
| Total assets  | <u>\$ 175,429</u>                  | <u>\$ 170,298</u>                       |
| <b>LIABILITIES and SHAREHOLDERS' EQUITY</b>   |                                    |   |
| Current liabilities:  |                                    |   |
| Borrowings from credit facility   | \$ 22,291                          | \$ 17,557                               |
| Accounts payable  | 36,560                             | 26,581                                  |
| Warrant liability   | 691                                | 601                                     |
| Accrued expenses and other current liabilities  | 33,198                             | 22,319                                  |
| Total current liabilities   | 92,740                             | 67,058                                  |
| Asset retirement obligations  | 4,953                              | 4,800                                   |
| Deferred gain associated with sale of assets  | 3,400                              | —                                       |
| Other long-term liabilities   | 1,047                              | 4                                       |
| Total liabilities   | 102,140                            | 71,862                                  |
| Commitments and contingencies (Note 11)   |                                    |   |
| Shareholders' equity:   |                                    |   |
| Preferred stock, \$0.0001 par value, 5,882 shares authorized; none issued or outstanding  | —                                  | —                                       |
| Common stock, no par value, 50,000 shares authorized; 24,082 shares issued and 24,042 shares outstanding as of June 30, 2012; 23,521 shares issued and 23,481 shares outstanding as of September 30, 2011 | 720,085                            | 713,063                                 |
| Treasury stock, at cost; 40 shares  | (2,083)                            | (2,083)                                 |
| Accumulated other comprehensive income  | 1,346                              | 912                                     |
| Accumulated deficit   | (646,059)                          | (613,456)                               |
| Total shareholders' equity  | 73,289                             | 98,436                                  |
| Total liabilities and shareholders' equity  | <u>\$ 175,429</u>                  | <u>\$ 170,298</u>                       |

**The accompanying notes are an integral part of these condensed consolidated financial statements.**

**EMCORE CORPORATION**  
**Condensed Consolidated Statements of Cash Flows**  
**For the Nine Months Ended June 30, 2012 and 2011**  
(in thousands)  
(unaudited)

|   | <b>For the Nine Months Ended June 30,</b> |             |
|---|---|-------------|
|   | <b>2012</b>                               | <b>2011</b> |
| <b>Cash flows from operating activities:</b>                                |   |             |
| Net loss  | \$ (32,603)                               | \$ (19,929) |
| Adjustments to reconcile net loss to net cash used in operating activities: |   |             |
| Impairment  | 1,425                                     | —           |
| Depreciation, amortization, and accretion expense                           | 7,118                                     | 8,903       |
| Stock-based compensation expense  | 5,997                                     | 5,572       |
| Provision adjustments related to doubtful accounts                          | (175)                                     | 63          |
| Provision adjustments related to product warranty                           | 189                                       | 312         |
| Provision for losses on inventory purchase commitments                      | 1,621                                     | —           |
| Loss from equity method investment  | 1,201                                     | 846         |
| Change in fair value of financial instruments                               | 90  | 1,417       |
| Net gain on disposal of equipment   | (3)                                       | —           |
| Flood-related loss, net of recoveries                                       | 5,519                                     | —           |
| Gain on sale of assets  | (2,793)                                   | —           |
| Total non-cash adjustments  | 20,189                                    | 17,113      |
| Changes in operating assets and liabilities:                                |   |             |
| Accounts receivable   | 4,494                                     | 2,371       |
| Inventory   | (13,504)                                  | (398)       |
| Other assets  | (248)                                     | (4,515)     |
| Accounts payable  | 9,750                                     | 825         |
| Accrued expenses and other current liabilities                              | 7,896                                     | 2,064       |
| Total change in operating assets and liabilities                            | 8,388                                     | 347         |
| Net cash used in operating activities                                       | (4,026)                                   | (2,469)     |
| <b>Cash flows from investing activities:</b>                                |   |             |
| Purchase of equipment   | (9,802)                                   | (3,274)     |
| Deposits on equipment orders  | (1,887)                                   | —           |
| Investments in internally-developed patents                                 | —   | (475)       |
| Investment in an unconsolidated affiliate                                   | —   | (12,000)    |
| Dividend from an unconsolidated affiliate                                   | 1,644                                     | —           |
| Consulting fees received related to an unconsolidated affiliate             | —   | 5,500       |
| Purchase of a business  | —   | (750)       |
| Proceeds from sale of assets  | 13,121                                    | —           |
| Increase in restricted cash   | (27)                                      | (928)       |
| Net cash provided by (used in) investing activities                         | 3,049                                     | (11,927)    |
| <b>Cash flows from financing activities:</b>                                |   |             |
| Net proceeds from borrowings from credit facilities                         | 4,735                                     | 3,786       |
| Net proceeds from private placement transaction                             | —   | 9,653       |
| Proceeds from stock plans   | 671                                       | 874         |
| Payments on capital lease obligations                                       | —   | (4)         |
| Net cash provided by financing activities                                   | 5,406                                     | 14,309      |
| Effect of exchange rate changes on foreign currency                         | 218                                       | (1,028)     |
| Net increase (decrease) in cash and cash equivalents                        | 4,647                                     | (1,115)     |
| Cash and cash equivalents at beginning of period                            | 15,598                                    | 19,944      |
| Cash and cash equivalents at end of period                                  | \$ 20,245                                 | \$ 18,829   |
| <b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>                     |   |             |
| Cash paid during the period for interest                                    | \$ 329                                    | \$ 813      |
| Cash paid during the period for income taxes                                | \$ 1,644                                  | \$ —        |
| <b>NON-CASH INVESTING AND FINANCING ACTIVITIES</b>                          |   |             |
| Acquisition of equipment under capital lease                                | \$ 3,722                                  | \$ —        |
| Prior consulting fees received related to an unconsolidated affiliate       | \$ —                                      | \$ 3,000    |

**The accompanying notes are an integral part of these condensed consolidated financial statements.**



**EMCORE Corporation**  
**Notes to our Condensed Consolidated Financial Statements**  
**For the Nine Months Ended June 30, 2012**  
(unaudited)

**NOTE 1. Basis of Presentation**

Business Overview

EMCORE Corporation and its subsidiaries (the “Company”, “we”, “our”, or “EMCORE”) offers a broad portfolio of compound semiconductor-based products for the fiber optics and solar power markets. We were established in 1984 as a New Jersey corporation and we have two reporting segments: Fiber Optics and Photovoltaics. Our Fiber Optics reporting segment provides optical components, subsystems, and systems for high-speed telecommunications, cable television (CATV), and fiber-to-the-premise (FTTP) networks, as well as products for satellite communications, video transport, and specialty photonics technologies for defense and homeland security applications. Our Photovoltaics reporting segment provides products for both space and terrestrial solar power applications. For space solar power applications, we offer high-efficiency multi-junction solar cells, covered interconnect cells (CICs), and complete satellite solar panels. For terrestrial solar power applications, we offer a broad portfolio of concentrator photovoltaics (CPV) multi-junction solar cells and components, as well as commercial rooftop solar concentrator systems.

Interim Financial Statements

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) for interim information, and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X of the Securities and Exchange Commission (SEC). Accordingly, they do not include all of the information and notes required by U.S. GAAP for annual financial statements. In our opinion, the interim financial statements reflect all normal adjustments that are necessary to provide a fair presentation of the financial results for the interim periods presented. Operating results for interim periods are not necessarily indicative of results that may be expected for an entire fiscal year. The condensed consolidated balance sheet as of September 30, 2011 has been derived from the audited consolidated financial statements as of such date. For a more complete understanding of our business, financial position, operating results, cash flows, risk factors and other matters, please refer to our Annual Report on Form 10-K for the fiscal year ended September 30, 2011.

All significant intercompany accounts and transactions have been eliminated in consolidation. We are not the primary beneficiary of, nor do we hold a significant variable interest in, any variable interest entity. Certain prior period amounts have been reclassified to conform to the current period presentation.

Reverse Stock Split

On January 27, 2012, we announced that our Board of Directors approved a four-to-one reverse stock split of our common stock. Our shareholders had previously authorized our Board of Directors to approve a reverse stock split at our 2011 Annual Meeting held on June 14, 2011. On February 15, 2012, we filed a Certificate of Amendment to our Restated Certificate of Incorporation in order to effect the reverse stock split and reduce the number of authorized shares of our common stock from 200 million to 50 million. Our common stock began trading on the NASDAQ Global Market on a split-adjusted basis on February 16, 2012. No fractional shares were issued in connection with the reverse stock split; all share amounts were rounded up. Furthermore, proportional adjustments were made to our stock options, warrants, and other securities. The change in the number of shares has been applied retroactively to all share and per share amounts presented in our consolidated financial statements and accompanying notes.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, as of the date of the financial statements, and the reported amounts of revenue and expenses during the reported period.



The accounting estimates that require significant, difficult, and/or subjective judgments include:

- the valuation of inventory, goodwill, intangible assets, warrants, and stock-based compensation;
- depreciation, amortization, and assessment of recovery of long-lived assets;
- asset retirement obligations and contingencies including litigation and indemnification-related;
- revenue recognition associated with the percentage of completion method;
- the allowance for doubtful accounts and warranty accruals; and,
- impairment and other losses associated with the Thailand flood.

We have designated our accounting policy related to estimating losses associated with the Thailand flood as a critical accounting policy effective during the nine months ended June 30, 2012. See [Note 9 - Flood-related Losses](#) for additional disclosures related to the impact of the Thailand flood on our operations.

We develop estimates based on historical experience and on various assumptions about the future that are believed to be reasonable based on the best information available to us. Our reported financial position and/or results of operations may be materially different under changed conditions or when using different estimates and assumptions, particularly with respect to significant accounting policies. In the event that estimates or assumptions prove to differ from actual results, adjustments are made in subsequent periods to reflect more current information.

#### Sale of Fiber Optics-related Assets

On March 27, 2012, we entered into a Master Purchase Agreement with a subsidiary of Sumitomo Electric Industries, LTD (SEI), pursuant to which we agreed to sell certain assets and transfer certain obligations associated with our Fiber Optics segment. On May 7, 2012, we completed the sale of these assets to SEI and recorded a gain of approximately \$2.8 million. This transaction has been recorded as a sale of assets since it did not meet the criteria to be considered a component of our business. The assets sold included inventory, fixed assets, and intellectual property which enabled approximately \$1.8 million and \$9.2 million of revenue from sales of datacom, parallel optical devices and EMCORE Connects Cable products during the three and nine months ended June 30, 2012, respectively. We have indemnified SEI up to \$3.4 million for potential claims and expenses for the two-year period following the sale and we have recorded this amount as a deferred gain on our balance sheet as of June 30, 2012 as a result of certain contingencies. SEI paid \$13.1 million in cash and deposited approximately \$2.6 million into escrow as security for indemnification obligations and any purchase price adjustments. Payment of escrow amounts occurs over a two-year period and is subject to claim adjustments. We deferred approximately \$4.9 million of the gain on sale until the indemnification obligation and purchase price adjustment contingencies are resolved.

In May 2012, we also entered into a separate facility lease and transition services agreement (TSA) with SEI related to financial services, supply chain, facility, and information infrastructure support functions to be provided by us. We believe the values assigned to the facility lease and TSA approximate fair value. During the three months ended June 30, 2012, we recognized \$0.5 million related to TSA fees and facility rental income which was recorded as a benefit against operating expenses incurred for such services.

The TSA included a \$0.5 million credit to be applied against fees incurred over a twelve-month period through May 2013. We also incurred \$0.6 million in expenses directly associated with this transaction. The TSA credit and transaction-related expenses incurred were applied against the proceeds received in determination of the gain recognized during the period.

#### Liquidity and Capital Resources

Historically, we have consumed cash from operations and incurred significant net losses. We have managed our liquidity position through a series of cost reduction initiatives, borrowings from our credit facility, capital markets transactions, and the sale of assets.

As of June 30, 2012, cash and cash equivalents totaled \$20.2 million and working capital totaled approximately \$7.2 million. Working capital, calculated as current assets minus current liabilities, is a financial metric we use which represents available operating liquidity. For the three and nine months ended June 30, 2012, we incurred a net loss of \$9.0 million and \$32.6 million, respectively. Net cash used in operating activities for the nine months ended June 30, 2012 totaled \$4.0 million.

With respect to measures taken to improve liquidity:

- **Credit Facility:** In November 2010, we entered into a Credit and Security Agreement (credit facility) with Wells Fargo Bank (Wells Fargo). The credit facility provides us with a revolving credit of up to \$35.0 million through November 2013 that can be used for working capital requirements, letters of credit, and other general corporate purposes. The credit facility is secured by the Company's assets and is subject to a borrowing base formula based on the Company's eligible accounts receivable and inventory accounts.

Our credit facility contains customary representations and warranties, and affirmative and negative covenants, including, among other things, cash balance and excess availability requirements, minimum tangible net worth and EBITDA covenants, and limitations on liens and certain additional indebtedness and guarantees. The covenants are written such that as long as we maintain a minimum cash balance and excess availability requirement, the other covenants are not required to be met. As of June 30, 2012, we were in compliance with this financial covenant.

Our credit facility also contains certain events of default, including a subjective acceleration clause. Under this clause, Wells Fargo may declare an event of default if it believes in good faith that our ability to pay all or any portion of our indebtedness with Wells Fargo or to perform any of our material obligations under the credit facility has been impaired, or if it believes in good faith that there has been a material adverse change in the business or financial condition of the Company. If an event of default is not cured within the grace period (if applicable), then Wells Fargo may, among other things, accelerate repayment of amounts borrowed under the credit facility, cease making advances under the credit facility, or take possession of the Company's assets that secure its obligations under the credit facility. We do not anticipate at this time any change in the business or financial condition of the Company that could be deemed a material adverse change by Wells Fargo. Wells Fargo has confirmed that they do not consider the flooding at our contract manufacturer's facility in Thailand to be a material adverse change in the business or financial condition of the Company.

On December 21, 2011, we entered into a First Amendment to the credit facility which increased our eligible borrowing base by up to \$10.0 million by adding to the borrowing base formula 85% of the appraised value of the Company's equipment and 50% of the appraised value of the Company's real estate. In addition, Wells Fargo reduced our restrictions under the excess availability financial covenant requirement from \$7.5 million to \$3.5 million through December 2012. The interest rate on outstanding borrowings was increased to LIBOR rate plus four percent. The credit facility will return to its previous agreement terms on the earlier of (i) December 31, 2012, or (ii) the date that we receive insurance proceeds of not less than \$30.0 million in the aggregate applicable to the flooding of our primary contract manufacturer in Thailand.

On June 14, 2012, we entered into a Second Amendment to the credit facility, which amended among other things, the borrowing base increase under the First Amendment, which is subject to automatic reductions to (i) \$8.1 million on July 1, 2012; and to (ii) \$3.1 million on January 1, 2013. The Second Amendment automatically reduces the \$8.1 million and \$3.1 million thresholds referenced above to \$5.0 million and \$0, respectively, if the sale of certain assets does not occur. The amended credit facility no longer includes certain assets in the potential borrowing base including certain machinery and equipment and real estate.

As of June 30, 2012, we had a \$22.3 million LIBOR rate loan outstanding under our credit facility, with an interest rate of 4.5%. As of August 3, 2012, the outstanding balance under this credit facility totaled approximately \$17.0 million. As of June 30, 2012, the credit facility also had \$2.4 million reserved for nine outstanding stand-by letters of credit, leaving a remaining \$0.7 million borrowing availability balance under this credit facility. We expect at least 70% of the total amount of credit under this credit facility to be available for use over the next year.

- **Equity Facility:** In August 2011, we entered into a committed equity line financing facility (equity facility) with Commerce Court Small Cap Value Fund, Ltd. (Commerce Court) whereby Commerce Court has committed, upon issuance of a draw-down request by us, to purchase up to \$50 million worth of our common stock over a two-year period, subject to our common stock trading above \$4 per share, as adjusted for the reverse stock split, during the draw down period, unless a waiver is received. As of June 30, 2012, there have been no draw down transactions completed under this equity facility.

- **Sale of Fiber Optics-related Assets:** The sale of our vertical cavity surface emitting lasers (VCSEL)-based and enterprise-related product lines provided \$13.1 million of cash and this sale is expected to simplify our operating structure and reduce our fixed costs.
- **Impact From Thailand Flood:** In November 2011, we entered into an agreement with our contract manufacturer in Thailand whereby our contract manufacturer agreed to purchase equipment to rebuild certain manufacturing lines damaged by flood waters and we agreed to reimburse our contract manufacturer for the cost of the equipment out of insurance proceeds that we expect to receive. During the three months ended June 30, 2012, we capitalized the cost of our new manufacturing lines of approximately \$3.7 million and recorded an equipment capital lease obligation of \$2.9 million, net of equipment deposits. Additionally, we restructured our outstanding payables owed to our contract manufacturer, which delayed payments to future dates to coincide with expected timing of insurance proceeds. Our contract manufacturer is required under its production agreement with us to reimburse us for losses to inventory and equipment incurred while at their facility. We are working with our contract manufacturer (and our contract manufacturer's insurance carrier) to receive insurance proceeds to cover the direct damages to our assets that were impacted by the flood. We are not a named beneficiary of our contract manufacturer's insurance policy. The timing and amounts of the recovery from the contract manufacturer, including insurance proceeds, are uncertain at this time. Insurance recoveries related to inventory and equipment destroyed by the Thailand flood will be recognized when they become realized. See [Note 9 - Flood-related Losses](#) for additional disclosures related to the impact of the Thailand flood on our operations.

We believe that our existing balances of cash and cash equivalents, the agreement with our contract manufacturer to delay payment terms and purchase equipment on our behalf, benefits expected from insurance proceeds, and amounts expected to be available under our credit and equity facilities will provide us with sufficient financial resources to meet our cash requirements for operations, working capital, and capital expenditures for the next twelve months.

However, in the event of unforeseen circumstances, unfavorable market or economic developments, unfavorable results from operations, any failure to receive expected proceeds from insurance, material claims made under the indemnification provisions of our Master Purchase Agreement with SEI, or if Wells Fargo declares an event of default on the credit facility, we may have to raise additional funds by any one or a combination of the following: issuing equity, debt or convertible debt, or selling certain product lines and/or portions of our business. There can be no assurance that we will be able to raise additional funds on terms acceptable to us, or at all. A significant contraction in the capital markets, particularly in the technology sector, may make it difficult for us to raise additional capital if or when it is required, especially if we experience negative operating results. If adequate capital is not available to us as required, or is not available on favorable terms, our business, financial condition, results of operations, and cash flows may be adversely affected.

#### **NOTE 2. Recent Accounting Pronouncements**

There have been no recent accounting pronouncements or changes in accounting pronouncements since September 30, 2011 that are of significance or potential significance to us. We believe the impact of recently issued accounting standards that are not yet effective will not have a material impact on our consolidated financial position, results of operations, or cash flows upon adoption.

#### **NOTE 3. Fair Value Accounting**

ASC 820, *Fair Value Measurements and Disclosures*, establishes a valuation hierarchy for disclosure of the inputs to valuation techniques used to measure fair value. This standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value:

- Level 1 inputs are unadjusted quoted prices in active markets for identical assets or liabilities. We classify investments within Level 1 if quoted prices are available in active markets.
- Level 2 inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly, through market corroboration, for substantially the full term of the financial instrument. We classify items in Level 2 if the investments are valued using observable inputs to quoted market prices, benchmark yields, reported trades, broker/dealer quotes or alternative pricing sources with reasonable levels of price transparency.

- Level 3 inputs are unobservable inputs based on our own assumptions used to measure assets and liabilities at fair value. A financial asset or liability's classification within this hierarchy is determined based on the lowest level input that is significant to the fair value measurement. We do not hold any financial assets or liabilities within Level 3.

Valuation techniques used to measure fair value under ASC 820 must maximize the use of observable inputs and minimize the use of unobservable inputs. The following table lists our financial assets and liabilities that are measured at fair value on a recurring basis:

**Fair Value Measurement**

(in thousands)

|                                 | Level 1  | Level 2                                       | Level 3                         |           |
|---------------------------------|--|---|---------------------------------|-----------|
|                                 | Quoted Prices in Active Markets for Identical Assets | Significant Other Observable Remaining Inputs | Significant Unobservable Inputs | Total     |
| <b>As of June 30, 2012</b>      |  |   |                                 |           |
| <b>Assets:</b>                  |  |   |                                 |           |
| Cash and cash equivalents       | \$ 20,245  | —   | —                               | \$ 20,245 |
| Restricted cash                 | \$ 571   | —   | —                               | \$ 571    |
| <b>Liabilities:</b>             |  |   |                                 |           |
| Warrant liability               | —  | \$ 691  | —                               | \$ 691    |
| <b>As of September 30, 2011</b> |  |   |                                 |           |
| <b>Assets:</b>                  |  |   |                                 |           |
| Cash and cash equivalents       | \$ 15,598  | —   | —                               | \$ 15,598 |
| Restricted cash                 | \$ 544   | —   | —                               | \$ 544    |
| <b>Liabilities:</b>             |  |   |                                 |           |
| Warrant liability               | —  | \$ 601  | —                               | \$ 601    |

Cash consists primarily of bank deposits and occasionally highly liquid short-term investments with a maturity of three months or less at the time of purchase.

Restricted cash represents temporarily restricted deposits held as compensating balances against short-term borrowing arrangements.

As of June 30, 2012 and September 30, 2011, warrants representing 750,010 shares of our common stock were outstanding.

All of our warrants meet the classification requirements for liability accounting pursuant to ASC 815, *Derivatives and Hedging*. Each quarter, we expect an impact on our statement of operations and comprehensive loss when we record the change in fair value of our outstanding warrants using the Monte Carlo option valuation model. The Monte Carlo option valuation model is used since it allows the valuation of each warrant to factor in the value associated with our right to affect a mandatory exercise of each warrant. The valuation model requires the input of highly subjective assumptions, including the warrant's expected life and the price volatility of the underlying stock. The change in the fair value of our warrants has been primarily due to the change in the closing price of our common stock.

The carrying amounts of accounts receivable, prepaid expenses and other current assets, borrowings from our credit facility, accounts payable, accrued expenses and other current liabilities approximate fair value because of the short maturity of these instruments.

Impairment tests related to our goodwill and long-lived assets involves comparing fair value to carrying amount. See [Note 7 - Intangible Assets](#) for disclosures related to recent long-lived asset impairment tests.

**NOTE 4. Accounts Receivable**

The components of accounts receivable consisted of the following:

| <i>(in thousands)</i>           | <b>As of<br/>June 30,<br/>2012</b> | <b>As of<br/>September 30, 2011</b> |
|---------------------------------|------------------------------------|-------------------------------------|
| Accounts receivable             | \$ 27,916                          | \$ 33,938                           |
| Accounts receivable – unbilled  | 6,072                              | 4,269                               |
| Accounts receivable, gross      | 33,988                             | 38,207                              |
| Allowance for doubtful accounts | (3,262)                            | (3,332)                             |
| Accounts receivable, net        | <u>\$ 30,726</u>                   | <u>\$ 34,875</u>                    |

Unbilled accounts receivable represents revenue recognized but not yet billed as of the period ended. Billings on contracts using the percentage-of-completion method usually occur upon completion of predetermined contract milestones or other contract terms, such as customer approval. The allowance for doubtful accounts is based on the age of receivables and a specific identification of receivables considered at risk of collection.

As of June 30, 2012 and September 30, 2011, we had \$6.1 million and \$3.3 million, respectively, of accounts receivable recorded using the percentage of completion method. Of these amounts, \$1.4 million was invoiced and \$4.7 million was unbilled as of June 30, 2012; and, \$1.3 million was invoiced and \$2.0 million was unbilled as of September 30, 2011.

**NOTE 5. Inventory**

The components of inventory consisted of the following:

| <i>(in thousands)</i> | <b>As of<br/>June 30,<br/>2012</b> | <b>As of<br/>September 30, 2011</b> |
|-----------------------|------------------------------------|-------------------------------------|
| Raw materials         | \$ 17,603                          | \$ 13,799                           |
| Work in-process       | 9,524                              | 7,129                               |
| Finished goods        | 11,811                             | 12,238                              |
| Inventory             | <u>\$ 38,938</u>                   | <u>\$ 33,166</u>                    |

During the nine months ended June 30, 2012, we recorded flood-related losses associated with damaged inventory of approximately \$3.7 million. During the three months ended June 30, 2012, we recovered \$0.3 million of our inventory which was previously believed to be damaged by the Thailand flood. See [Note 9 - Flood-related Losses](#) for additional disclosures related to the impact of the Thailand flood on our operations.

In May 2012, we sold approximately \$5.1 million of inventory to SEI pursuant to a Master Purchase Agreement signed in March 2012. We also wrote-off \$0.3 million of inventory associated with product lines sold to SEI which will no longer be manufactured by us. See [Note 1 - Basis of Presentation](#) for additional disclosures related to this asset sale.

**NOTE 6. Property, Plant, and Equipment, net**

The components of property, plant, and equipment, net consisted of the following:

| <i>(in thousands)</i>               | <b>As of<br/>June 30,<br/>2012</b> | <b>As of<br/>September 30, 2011</b> |
|-------------------------------------|------------------------------------|-------------------------------------|
| Land                                | \$ 1,502                           | \$ 1,502                            |
| Building and improvements           | 19,463                             | 19,904                              |
| Equipment                           | 12,443                             | 12,656                              |
| Furniture and fixtures              | 190                                | 51                                  |
| Computer hardware and software      | 1,050                              | 1,041                               |
| Leasehold improvements              | 3,820                              | 4,631                               |
| Construction in progress            | 8,455                              | 7,001                               |
| Property, plant, and equipment, net | <u>\$ 46,923</u>                   | <u>\$ 46,786</u>                    |

During the nine months ended June 30, 2012, we recorded flood-related losses associated with damaged equipment of approximately \$1.8 million. In addition, equipment under capital lease totaling \$1.9 million as of September 30, 2011 was also damaged by the Thailand flood and was written off against our outstanding capital lease obligation. We have entered into agreements with our contract manufacturer in Thailand whereby our contract manufacturer agreed to purchase equipment to rebuild certain manufacturing lines damaged by flood waters and we agreed to reimburse our contract manufacturer for the cost of the equipment out of insurance proceeds that we expect to receive. During the three months ended June 30, 2012, we capitalized the cost of our new manufacturing lines of approximately \$3.7 million and recorded an equipment capital lease obligation of \$2.9 million, net of equipment deposits. See [Note 9 - Flood-related Losses](#) for additional disclosures related to the impact of the Thailand flood on our operations.

In May 2012, we sold approximately \$0.9 million of equipment, net of accumulated amortization, to SEI pursuant to a Master Purchase Agreement signed in March 2012. See [Note 1 - Basis of Presentation](#) for additional disclosures related to this asset sale.

As of June 30, 2012 and September 30, 2011, accumulated depreciation was approximately \$75.1 million and \$105.5 million, respectively. The reduction in accumulated depreciation was primarily due to sale of equipment to SEI and the write-off of damaged equipment due to the Thailand flood.

See [Note 7 - Intangible Assets](#) for disclosures related to recent long-lived asset impairment tests.

**NOTE 7. Intangible Assets**

The following table sets forth the carrying value of intangible assets by reporting segment:

| <i>(in thousands)</i> | <b>As of June 30, 2012</b> |                                     |                       | <b>As of September 30, 2011</b> |                                     |                       |
|-----------------------|----------------------------|-------------------------------------|-----------------------|---------------------------------|-------------------------------------|-----------------------|
|                       | <b>Gross<br/>Assets</b>    | <b>Accumulated<br/>Amortization</b> | <b>Net<br/>Assets</b> | <b>Gross<br/>Assets</b>         | <b>Accumulated<br/>Amortization</b> | <b>Net<br/>Assets</b> |
| <b>Fiber Optics:</b>  |                            |                                     |                       |                                 |                                     |                       |
| Core Technology       | \$ 12,727                  | \$ (10,982)                         | \$ 1,745              | \$ 13,872                       | \$ (10,862)                         | \$ 3,010              |
| Customer Relations    | 3,511                      | (2,287)                             | 1,224                 | 3,511                           | (2,071)                             | 1,440                 |
| Patents               | 4,697                      | (4,352)                             | 345                   | 4,697                           | (4,265)                             | 432                   |
|                       | <u>20,935</u>              | <u>(17,621)</u>                     | <u>3,314</u>          | <u>22,080</u>                   | <u>(17,198)</u>                     | <u>4,882</u>          |
| <b>Photovoltaics:</b> |                            |                                     |                       |                                 |                                     |                       |
| Patents               | 1,972                      | (1,541)                             | 431                   | 2,279                           | (1,295)                             | 984                   |
| Total                 | <u>\$ 22,907</u>           | <u>\$ (19,162)</u>                  | <u>\$ 3,745</u>       | <u>\$ 24,359</u>                | <u>\$ (18,493)</u>                  | <u>\$ 5,866</u>       |

In May 2012, we sold approximately \$0.5 million of fiber optics-related intangible assets, net of accumulated amortization, to SEI pursuant to a Master Purchase Agreement signed in March 2012. See [Note 1 - Basis of Presentation](#) for additional disclosures related to this asset sale.

Amortization expense related to intangible assets is included in sales, general, and administrative expense on our statement of operations and comprehensive loss. Based on the carrying amount of our intangible assets as of June 30, 2012, the estimated future amortization expense is as follows:

**Estimated Future Amortization Expense**

*(in thousands)*

|                                       |    |              |
|---------------------------------------|----|--------------|
| Three months ended September 30, 2012 | \$ | 317          |
| Fiscal year ended September 30, 2013  |    | 1,269        |
| Fiscal year ended September 30, 2014  |    | 1,017        |
| Fiscal year ended September 30, 2015  |    | 555          |
| Fiscal year ended September 30, 2016  |    | 555          |
| Thereafter                            |    | 32           |
| Total                                 | \$ | <u>3,745</u> |

**Impairment Testing**

As of December 31, 2011, we performed an impairment test of long-lived assets within our Fiber Optics segment and we determined that no impairment existed. The impairment test was triggered by a change in long-term financial and cash flow forecasts due to the adverse impact the Thailand flood has had on our operations. See [Note 9 - Flood-related Losses](#) for additional disclosures related to the impact of the Thailand flood on our operations. In making this determination, we used certain assumptions, including estimates of future cash flows expected to be generated by these long-lived assets, which are based on additional assumptions such as asset utilization, expected length of service from the assets, and estimated salvage values. If we are unable to achieve projected cash flows, we may be required to perform additional impairment tests of our remaining long-lived assets which may result in the recording of impairment charges.

As of June 30, 2012, we performed an evaluation of an asset group within our Photovoltaics segment for impairment of long-lived assets. The impairment test was triggered by a determination that it was more likely than not those assets would be sold or otherwise disposed of before the end of their previously estimated useful lives. As a result of the evaluation, we determined that impairment existed and a charge of \$1.4 million was recorded to write down the long-lived assets to an estimated fair value. Of the total impairment charge, \$1.1 million related to equipment and \$0.3 million related to intangible assets. See [Note 15 - Subsequent Events](#) for disclosures related to the recently signed definitive agreement which will consolidate the Company's terrestrial CPV system engineering and development efforts into the Company's joint venture.

**NOTE 8. Accrued Expenses and Other Current Liabilities**

The components of accrued expenses and other current liabilities consisted of the following:

| <i>(in thousands)</i>                          | <b>As of<br/>June 30,<br/>2012</b> | <b>As of<br/>September 30, 2011</b> |
|--|------------------------------------|-------------------------------------|
| Compensation                                   | \$ 5,414                           | \$ 4,222                            |
| Warranty                                       | 3,985                              | 4,158                               |
| Termination fee                                | 2,775                              | 2,775                               |
| Professional fees                              | 646                                | 489                                 |
| Royalty  | 1,488                              | 1,627                               |
| Customer deposits                              | 5,812                              | 601                                 |
| Deferred revenue                               | 3,651                              | 2,152                               |
| Self insurance                                 | 1,355                              | 1,048                               |
| Capital lease obligations                      | 2,924                              | 1,279                               |
| Income and other taxes                         | 1,106                              | 1,269                               |
| Loss on sale contracts                         | 795                                | 480                                 |
| Severance and restructuring accruals           | 445                                | 405                                 |
| Loss on inventory purchase commitments         | 1,621                              | —                                   |
| Litigation settlements                         | —                                  | 1,445                               |
| Other  | 1,181                              | 369                                 |
| Accrued expenses and other current liabilities | <u>\$ 33,198</u>                   | <u>\$ 22,319</u>                    |

**Customer deposits:** We signed agreements with certain customers related to our Fiber Optics segment pursuant to which they have received an allocation of our finished goods inventory that was not damaged by the Thailand flood, as well as will receive a percentage of future output from our new production lines being placed into service. As consideration, we received \$6.8 million as partial prepayments for future product shipments, of which approximately \$3.1 million is outstanding as of June 30, 2012. In December 2011, we also received a \$3.3 million deposit from our Suncore joint venture related to an order for terrestrial CPV solar cells, of which \$2.2 million is outstanding as of June 30, 2012.

**Capital lease obligations:** Equipment under capital lease as of September 30, 2011 was damaged by the Thailand flood and was written off against our outstanding capital lease obligation. During the three months ended June 30, 2012, we capitalized the cost of our new manufacturing lines of approximately \$3.7 million and recorded an equipment capital lease obligation of \$2.9 million, net of equipment deposits.

**Severance and restructuring accruals:** Our restructuring-related accrual specifically relates to non-cancelable obligations associated with an abandoned leased facility. Expense related to severance and restructuring accruals is included in sales, general, and administrative expense on our statement of operations and comprehensive loss. The following table summarizes the changes in the severance and restructuring-related accrual accounts:

| <i>(in thousands)</i>            | <b>Severance-related<br/>accruals</b> | <b>Restructuring-<br/>related accruals</b> | <b>Total</b>  |
|----------------------------------|---------------------------------------|--|---------------|
| Balance as of September 30, 2011 | \$ 5                                  | \$ 400                                     | \$ 405        |
| Expense - charged to accrual     | 329                                   | 35   | 364           |
| Payments and accrual adjustments | (167)                                 | (157)                                      | (324)         |
| Balance as of June 30, 2012      | <u>\$ 167</u>                         | <u>\$ 278</u>                              | <u>\$ 445</u> |



Loss on inventory purchase commitments: Management identified certain inventory on order related to manufacturing product lines that were destroyed by the Thailand flood and will not be replaced. This expense, which totaled \$0.3 million and \$1.6 million for the three and nine months ended June 30, 2012, respectively, was recorded within cost of revenue on our statement of operations and comprehensive loss. See [Note 9 - Flood-related Losses](#) for additional disclosures related to the impact of the Thailand flood on our operations.

**NOTE 9. Impact from Thailand Flood**

In October 2011, we announced that flood waters had severely impacted the inventory and production operations of our primary contract manufacturer in Thailand. The impacted areas included certain product lines for the Telecom and Cable Television (CATV) market segments. This has had a significant impact on our operations and our ability to meet customer demand for certain of our fiber optics products in the near term. Our Photovoltaics segment was not affected by the Thailand floods. Since that announcement, we have developed and implemented a plan to rebuild the impacted production lines at other locations, including an alternate facility of our contract manufacturer in Thailand, as well as our own manufacturing facilities in the United States and China.

During the nine months ended June 30, 2012, we recorded estimated flood-related losses associated with damaged inventory and equipment of approximately \$3.7 million and \$1.8 million, respectively. We continue to evaluate our preliminary estimates of flood-related losses, and in future quarters we may record additional adjustments for damaged inventory and equipment.

Equipment under capital lease totaling \$1.9 million as of September 30, 2011 was also damaged by the Thailand flood and written off against our outstanding capital lease obligation. We have entered into agreements with our contract manufacturer in Thailand whereby our contract manufacturer agreed to purchase equipment to rebuild certain manufacturing lines damaged by flood waters and we agreed to reimburse our contract manufacturer for the cost of the equipment out of insurance proceeds that we expect to receive. During the three months ended June 30, 2012, we capitalized the cost of our new manufacturing lines of approximately \$3.7 million and recorded an equipment capital lease obligation of \$2.9 million, net of equipment deposits.

Instead of completely rebuilding all flood-damaged manufacturing lines in Thailand, management decided to realign the Company's fiber optics product portfolio and focus on business areas with strong technology differentiation and growth opportunities. Management identified certain inventory on order related to manufacturing product lines that were destroyed by the Thailand flood and will not be replaced. This expense, which totaled \$0.3 million and \$1.6 million for the three and nine months ended June 30, 2012, respectively, was recorded within cost of revenue on our statement of operations and comprehensive loss.

Our contract manufacturer is required under its production agreement with us to reimburse us for losses to inventory and equipment incurred while at their facility. We are working with our contract manufacturer (and our contract manufacturer's insurance carrier) to receive insurance proceeds to cover the direct damages to our assets that were impacted by the flood. We are not a named beneficiary of our contract manufacturer's insurance policy. The timing and amounts of the recovery from the contract manufacturer, including insurance proceeds, are uncertain at this time. Insurance recoveries related to inventory and equipment destroyed by the Thailand flood will be recognized when they become realized. Additionally, we also claimed damages and received proceeds of \$5.0 million under our own comprehensive insurance policy relating to business interruption and we recorded this amount as flood-related insurance proceeds during the nine months ended June 30, 2012. No additional business interruption insurance proceeds associated with this event are anticipated.

The flooding has delayed our development and introduction of new fiber optics-related products and technologies. Delays in implementing new technologies and introducing new products may reduce our revenue and adversely affect our consolidated results of operations even after operations are restored.

**NOTE 10. Income Taxes**

During the nine months ended June 30, 2012, there have been no material increases or decreases in unrecognized tax benefits and we do not anticipate any material increases or decreases in the amounts of unrecognized tax benefits for the remaining fiscal year. As of June 30, 2012, we had approximately \$1.1 million accrued as income and other taxes on our consolidated balance sheet of which \$0.8 million was related to uncertain tax positions and foreign taxes.

During the three months ended December 31, 2011, as part of an equity recapitalization at our Suncore joint venture we received a deemed capital distribution of \$14.8 million. The deemed capital distribution was subject to a 10% foreign withholding tax. As a result, we were subject to a \$1.6 million foreign tax expense and Suncore made a cash dividend for an equal amount. We do not anticipate any material changes in foreign tax expense for the remaining fiscal year.

We file income tax returns in U.S. federal, state, local, and foreign jurisdictions. We are not currently under examination by any tax authority. We file in several tax jurisdictions and the open tax years vary by statute, but commence in 2007.

#### NOTE 11. Commitments and Contingencies

As of June 30, 2012, our contractual obligations and commitments over the next five years are summarized in the table below:

(in thousands)

|   | Total     | Next 12 Months | Years 2-3 | Years 4-5 | > 5 Years |
|---|-----------|----------------|-----------|-----------|-----------|
| Purchase obligations                          | \$ 28,022 | \$ 27,696      | \$ 235    | \$ 91     | \$ —      |
| Credit facility borrowings                    | 22,291    | 22,291         | —         | —         | —         |
| Asset retirement obligations                  | 4,953     | —              | 390       | 33        | 4,530     |
| Operating lease obligations                   | 4,037     | 959            | 365       | 222       | 2,491     |
| Capital lease obligations                     | 2,924     | 2,924          | —         | —         | —         |
| Total contractual obligations and commitments | \$ 62,227 | \$ 53,870      | \$ 990    | \$ 346    | \$ 7,021  |

Interest payments are not included in the contractual obligations and commitments table above since they are insignificant to our consolidated results of operations.

**Purchase Obligations:** Our purchase obligations represent agreements to purchase goods or services that are enforceable and legally binding, that specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transactions.

**Credit Facility Borrowings:** See [Note 1 - Basis of Presentation](#) for information related to our credit facility borrowings.

**Asset Retirement Obligations:** We have known conditional asset retirement conditions, such as certain asset decommissioning and restoration of rented facilities to be performed in the future. Our asset retirement obligations include assumptions related to renewal option periods for those facilities where we expect to extend lease terms. In future periods, the asset retirement obligation is accreted for the change in its present value and capitalized costs are depreciated over the useful life of the related assets. If the fair value of the estimated asset retirement obligation changes, an adjustment will be recorded to both the asset retirement obligation and the asset retirement capitalized cost. Revisions in estimated liabilities can result from revisions of estimated inflation rates, escalating retirement costs, and changes in the estimated timing of settling asset retirement obligations. The fair value of our asset retirement obligations were estimated by discounting projected cash flows over the estimated life of the related assets using credit adjusted risk-free rates which ranged from 3.25% to 5.78%. Total liabilities associated with asset retirements that were settled during the nine months ended June 30, 2012 was approximately \$19,000. Accretion expense of \$51,000 and \$172,000 was recorded during the three and nine months ended June 30, 2012, respectively.

**Operating Lease Obligations:** We lease certain land, facilities, and equipment under non-cancelable operating leases. Operating lease amounts above exclude renewal option periods, property taxes, insurance, and maintenance expenses on leased properties. Our facility leases typically provide for rental adjustments for increases in base rent (up to specific limits), property taxes, insurance, and general property maintenance that would be recorded as rent expense. Rent expense was \$0.6 million and \$0.7 million for the three months ended June 30, 2012 and 2011, respectively, and approximately \$2.0 million for both the nine months ended June 30, 2012 and 2011. There are no off-balance sheet arrangements other than our operating leases.

**Capital Lease Obligations:** Equipment under capital lease as of September 30, 2011 was damaged by the Thailand flood and was written off against our outstanding capital lease obligation. We have entered into agreements with our contract manufacturer in Thailand whereby our contract manufacturer agreed to purchase equipment to rebuild certain manufacturing lines damaged by flood waters and we agreed to reimburse our contract manufacturer for the cost of the equipment out of insurance proceeds that we expect to receive. During the three months ended June 30, 2012, we capitalized the cost of our new manufacturing lines of approximately \$3.7 million and recorded an equipment capital lease obligation of \$2.9 million, net of equipment deposits. See [Note 9 - Flood-related Losses](#) for additional disclosures related to the impact of the Thailand flood on our operations.

**Warranty:** We generally provide a product and other warranties on our CPV-related solar cells, components, and power systems. Certain parts and labor warranties from our vendors can be assigned to our customers. Due to the absence of long-term historical warranty claim information on these type of products, we have estimated a warranty accrual upon recognition of revenue. Our reported financial position or results of operations may be materially different under changed conditions or when using different estimates and assumptions. In the event that estimates or assumptions prove to differ from actual results, adjustments are made in subsequent periods to reflect more current information.

**Indemnifications:** We have agreed to indemnify certain customers against claims of infringement of the intellectual property rights of others in our sales contracts with these customers. Historically, we have not paid any claims under these indemnification obligations, and we do not have any pending indemnification claims as of June 30, 2012. In March 2012, we entered into a Master Purchase Agreement with SEI, pursuant to which we agreed to sell certain assets and transfer certain obligations associated with our Fiber Optics segment. We have indemnified SEI up to \$3.4 million for potential claims and expenses for the two-year period following the sale and we have recorded this amount as a deferred gain on our balance sheet as of June 30, 2012 as a result of certain contingencies. See [Note 1 - Basis of Presentation](#) in the notes to the consolidated financial statements for additional disclosures related to this asset sale.

**Legal Proceedings:** We are subject to various legal proceedings, claims, and litigation, either asserted or unasserted that arise in the ordinary course of business. While the outcome of these matters is currently not determinable, we do not expect the resolution of these matters will have a material adverse effect on our business, financial position, results of operations, or cash flows. However, the results of these matters cannot be predicted with certainty. Professional legal fees are expensed when incurred. We accrue for contingent losses when such losses are probable and reasonably estimable. In May 2012, we reached a confidential settlement regarding certain outstanding litigation in exchange for a release of related claims. The settlement resulted in a charge of \$1.0 million in our statement of operations and comprehensive loss and was paid during the three months ended June 30, 2012. In the event that estimates or assumptions prove to differ from actual results, adjustments are made in subsequent periods to reflect more current information. Should we fail to prevail in any legal matter or should several legal matters be resolved against the Company in the same reporting period, then the financial results of that particular reporting period could be materially affected.

a) Intellectual Property Lawsuits

We protect our proprietary technology by applying for patents where appropriate and, in other cases, by preserving the technology, related know-how and information as trade secrets. The success and competitive position of our product lines are impacted by our ability to obtain intellectual property protection for our research and development efforts. We have, from time to time, exchanged correspondence with third parties regarding the assertion of patent or other intellectual property rights in connection with certain of our products and processes.

b) Avago-related Litigation

On December 5, 2008, we were served with a complaint by Avago Technologies filed in the United States District Court for the Northern District of California, San Jose Division alleging infringement of two patents by our VCSEL products. (Avago Technologies Singapore et al., EMCORE Corporation, et al., Case No.: C08-5394 EMC) (the "N.D. CA Patent Case"). This case was stayed and recommenced following completion of the ITC case described below. In April 2012, Avago amended its complaint to include additional patents and claims. Avago and the Company agreed to mediate, and as a result of that mediation held on May 10, 2012, the Company and Avago agreed to a confidential settlement agreement for a one-time payment by the Company in exchange for a full release of all claims against the Company relating to the N.D. CA Patent Case, including claims made in the amended complaint.

On March 5, 2009, we were notified that, based on a complaint filed by Avago alleging the same patent infringement that formed the basis of the complaint previously filed in the Northern District of California, the U.S. International Trade Commission (the “ITC”) had determined to begin an investigation titled “In the Matter of Certain Optoelectronic Devices, Components Thereof and Products Containing the Same”, Inv. No. 337-TA-669. This matter was tried before an administrative law judge of the ITC in November 2009.

On July 12, 2010, the ITC issued its final determination, as well as a limited exclusion order and cease and desist order directed to our infringing products which prohibits importation of those products into the United States. Those remedial orders were reviewed by the President of the United States and his decision to approve those orders was issued on September 10, 2010, thereby prohibiting further importation of the infringing products. We appealed the ITC's decision, and on November 14, 2011, the Court of Appeals affirmed the ITC's determination.

c) Green and Gold-related litigation

On December 23, 2008, Plaintiffs Maurice Prissert and Claude Prissert filed a purported stockholder class action (the “Prissert Class Action”) pursuant to Federal Rule of Civil Procedure 23 allegedly on behalf of a class of Company shareholders against the Company and certain of its present and former directors and officers (the “Individual Defendants”) in the United States District Court for the District of New Mexico captioned, *Maurice Prissert and Claude Prissert v. EMCORE Corporation, Adam Gushard, Hong Q. Hou, Reuben F. Richards, Jr., David Danzilio and Thomas Werthan, Case No. 1:08cv1190 (D.N.M.)*. The Complaint alleges that the Company and the Individual Defendants violated certain provisions of the federal securities laws, including Section 10(b) of the Securities Exchange Act of 1934, arising out of the Company's disclosure regarding its customer Green and Gold Energy (“GGE”) and the associated backlog of GGE orders with the Company's Photovoltaics business segment. The Complaint in the Prissert Class Action seeks, among other things, an unspecified amount of compensatory damages and other costs and expenses associated with the maintenance of the action. On or about February 12, 2009, a second purported stockholder class action (*Mueller v. EMCORE Corporation et al., Case No. 1:09cv 133 (D.N.M.)*) (the “Mueller Class Action”), together with the Prissert Class Action, the “Class Actions”) was filed in the United States District Court for the District of New Mexico against the same defendants named in the Prissert Class Action, based on substantially the same facts and circumstances, containing substantially the same allegations and seeking substantially the same relief.

On September 25, 2009, the court issued an order consolidating both the Prissert and Mueller class actions into one consolidated proceeding, but denied plaintiffs motions for appointment of a lead plaintiff or lead plaintiff's counsel. On July 15, 2010, the court appointed IBEW Local Union No. 58 Annuity Fund to serve as lead plaintiff (“IBEW”), but denied, without prejudice, IBEW's motion to appoint lead counsel. On August 24, 2010, IBEW filed a renewed motion for appointment as lead plaintiff and for approval of its selection of counsel. IBEW filed a renewed motion for appointment of counsel on May 13, 2011 which we did not oppose. By Order dated September 30, 2011, the court appointed counsel to act on behalf of the purported class.

On January 23, 2009, Plaintiff James E. Stearns filed a purported stockholder derivative action (the “Stearns Derivative Action”) on behalf of the Company against the Individual Defendants, as well as the Company as nominal defendant in the Superior Court of New Jersey, Atlantic County, Chancery Division (*James E. Stearns, derivatively on behalf of EMCORE Corporation v. Thomas J. Russell, Robert Bogomolny, Charles Scott, John Gillen, Reuben F. Richards, Jr., Hong Q. Hou, Adam Gushard, David Danzilio and Thomas Werthan, Case No. Atl-C-10-09*). This action is based on essentially the same factual contentions as the Prissert Class Action, and alleges that the Individual Defendants engaged in improprieties and violations of law in connection with the reporting of the GGE backlog. The Stearns Derivative Action seeks several forms of relief, allegedly on behalf of the Company, including, among other things, damages, equitable relief, corporate governance reforms, an accounting of, rescission of, restitution of, and costs and disbursements of the lawsuit.

On March 11, 2009, Plaintiff Gary Thomas filed a second purported shareholder derivative action (the “Thomas Derivative Action”; together with the Stearns Derivative Action, the “Derivative Actions”) in the U.S. District Court for the District of New Mexico against the Company and certain of the Individual Defendants (*Gary Thomas, derivatively on behalf of EMCORE Corporation v. Thomas J. Russell, Robert Bogomolny, Charles Scott, John Gillen, Reuben F. Richards, Jr., Hong Q. Hou, and EMCORE Corporation, Case No. 1:09-cv-00236, (D.N.M.)*). The Thomas Derivative Action makes substantially the same allegations as the Stearns Derivative Action and seeks essentially the same relief.

The Stearns Derivative Action and the Thomas Derivative action have been consolidated before a single judge in Somerset County, New Jersey, and have been stayed pending resolution of the Class Actions.

On November 14, 2011, the plaintiffs filed a Consolidated Amended Complaint, again alleging violations of the federal securities laws arising out of the Company's disclosure regarding its customer GGE and the associated backlog of GGE orders with the Company's Photovoltaics business segment (the "Amended Complaint"). The Amended Complaint seeks, among other things, an unspecified amount of compensatory damages and other costs and expenses associated with the maintenance of the action. The Amended Complaint again names the Company and the Individual Defendants, with the exception of former officer and director Thomas Werthan. The Company filed a motion to dismiss the Amended Complaint on January 9, 2012. Plaintiffs' filed their response and on March 26, 2012, the Company filed its rebuttal to the Plaintiff's. In addition, on June 22, 2012, the Company filed a Rule 11 Motion for sanctions against the Plaintiffs for failure to properly investigate the claims in their Amended Complaint before filing.

We intend to vigorously defend against the allegations of both the Class Actions and the Derivative Actions.

## **NOTE 12. Equity**

### Reverse Stock Split

See [Note 1 - Basis of Presentation](#) for disclosures related to our four-to-one reverse common stock split.

### Equity Plans

We provide long-term incentives to eligible officers, directors, and employees in the form of equity-based awards. We maintain three equity incentive compensation plans, collectively described below as our Equity Plans:

- the 2000 Stock Option Plan (2000 Plan),
- the 2010 Equity Incentive Plan (2010 Equity Plan),
- the 2012 Equity Incentive Plan (2012 Equity Plan).

The 2000 Plan expired in February 2010 and no additional shares are available for grant under this plan. However certain stock options issued under the 2000 Plan are still outstanding and exercisable.

The total number of stock-based awards that may be granted under the 2010 Equity Plan is 1,750,000 stock-based awards.

In March 2012, our shareholders approved the 2012 Equity Plan at our 2012 Shareholder Annual Meeting and authorized the reservation of 1,000,000 shares of EMCORE common stock for issuance under the 2012 Equity Plan. Employees, non-employee directors, and consultants of EMCORE and its subsidiaries are eligible to receive awards of EMCORE common stock, stock options, stock appreciation rights, restricted stock, restricted stock units, performance units, or stock purchase rights at the Compensation Committee's discretion.

We issue new shares of common stock to satisfy awards issued under our Equity Plans.

### Stock Options

Most of our stock options vest and become exercisable over a four to five year period and have a contractual life of ten years. Certain stock options awarded are intended to qualify as incentive stock options pursuant to Section 422A of the Internal Revenue Code.

The following table summarizes the activity related to stock options under the Equity Plans:

**Stock Option Activity**

|   | Number of<br>Shares | Weighted<br>Average<br>Exercise Price | Weighted Average<br>Remaining Contractual<br>Life<br>(in years) | Aggregate Intrinsic<br>Value (*) (in<br>thousands) |
|---|---------------------|---------------------------------------|---|--|
| Outstanding as of September 30, 2011            | 2,259,197           | \$17.76                               | 6.43  |  |
| Granted   | 32,353              | \$4.06                                |   |  |
| Exercised                                       | (4,480)             | \$4.76                                |   | \$3,000  |
| Forfeited                                       | (97,197)            | \$9.35                                |   |  |
| Expired   | (80,841)            | \$18.28                               |   |  |
| Outstanding as of June 30, 2012                 | 2,109,032           | \$17.95                               | 5.54  |  |
| Exercisable as of June 30, 2012                 | 1,622,462           | \$21.54                               | 4.89  | \$25,000   |
| Vested and expected to vest as of June 30, 2012 | 2,056,013           | \$18.26                               | 5.47  | \$83,000   |

(\*) Intrinsic value for stock options represents the “in-the-money” portion or the positive variance between a stock option’s exercise price and the underlying stock price.

As of June 30, 2012, there was approximately \$1.5 million of unrecognized stock-based compensation expense, net of estimated forfeitures, related to non-vested stock options granted under the Equity Plans which is expected to be recognized over an estimated weighted average life of 2.1 years.

The fair value of each stock option grant was estimated on the date of grant using the Black-Scholes option valuation model, adhering to the straight-line attribution approach using the following weighted-average assumptions, of which the expected term and stock price volatility rate are highly subjective:

|   | For the Three Months Ended<br>June 30, |        | For the Nine Months Ended<br>June 30, |        |
|---|--|--------|---------------------------------------|--------|
|   | 2012                                   | 2011   | 2012                                  | 2011   |
| <b>Black-Scholes weighted average assumptions:</b>                                |  |        |                                       |        |
| Expected dividend rate  | —%                                     | —%     | —%                                    | —%     |
| Expected stock price volatility rate  | 104.2%                                 | 101.3% | 104.4%                                | 99.2%  |
| Risk-free interest rate   | 0.8%                                   | 1.7%   | 0.8%                                  | 1.4%   |
| Expected term (in years)  | 5.0                                    | 5.0    | 5.0                                   | 4.9    |
| <b>Weighted average grant date fair value per share of stock options granted:</b> | \$3.04                                 | \$6.92 | \$3.09                                | \$4.24 |

**Restricted Stock**

Restricted stock awards (RSAs) and restricted stock units (RSUs) granted under the 2010 Equity Plan and 2012 Equity Plan typically vest over three years and are subject to forfeiture if employment terminates prior to the lapse of the restrictions. RSAs are considered issued and outstanding shares on the grant date and have the same dividend and voting rights as other common stock. RSUs are not considered issued or outstanding common stock until they vest.

The following table summarizes the activity related to RSAs and RSUs:

| Restricted Stock Activity           | Restricted Stock Awards |  | Restricted Stock Units |  |
|-------------------------------------|-------------------------|--|------------------------|--|
|                                     | Number of Shares        | Weighted Average Grant Date Fair Value | Number of Shares       | Weighted Average Grant Date Fair Value |
| Non-vested as of September 30, 2011 | 410,650                 | \$5.80                                 | 308,048                | \$6.20                                 |
| Granted                             | —                       | —                                      | 839,885                | \$3.88                                 |
| Vested                              | (132,758)               | \$5.80                                 | (221,198)              | \$3.82                                 |
| Forfeited                           | (20,502)                | \$5.68                                 | (60,952)               | \$4.64                                 |
| Non-vested as of June 30, 2012      | 257,390                 | \$5.81                                 | 865,783                | \$4.66                                 |

**Restricted stock awards:** As of June 30, 2012, there was approximately \$0.9 million of remaining unamortized stock-based compensation expense, net of estimated forfeitures, associated with RSAs, which will be expensed over a weighted average remaining service period of approximately 1.6 years.

**Restricted stock units:** As of June 30, 2012, there was approximately \$2.5 million of remaining unamortized stock-based compensation expense, net of estimated forfeitures, associated with RSUs, which will be expensed over a weighted average remaining service period of approximately 2.4 years. As of June 30, 2012, the total outstanding non-vested RSUs have an aggregate intrinsic value of approximately \$3.8 million and a weighted average remaining contractual term of 1.4 years. Approximately 766,000 RSUs are expected to vest and have an aggregate intrinsic value of approximately \$3.4 million and a weighted average remaining contractual term of 1.3 years.

#### Employee Stock Purchase Plan

At the 2012 Annual Meeting, our shareholders approved an amendment to our 2000 Employee Stock Purchase Plan (ESPP) that increased the total number of shares of common stock on which options may be granted under the ESPP to 2,250,000 shares.

#### Stock-based compensation

The effect of recording stock-based compensation expense was as follows:

| Stock-based Compensation Expense - by award type<br>(in thousands) | For the Three Months Ended<br>June 30, |          | For the Nine Months Ended<br>June 30, |          |
|--|--|----------|---------------------------------------|----------|
|  | 2012                                   | 2011     | 2012                                  | 2011     |
|  | Employee stock options                 | \$ 232   | \$ 2,224                              | \$ 2,367 |
| Restricted stock awards and units                                  | 605                                    | 213      | 2,126                                 | 303      |
| Employee stock purchase plan                                       | 124                                    | 207      | 537                                   | 419      |
| 401(k) match in common stock                                       | 280                                    | 288      | 755                                   | 752      |
| Outside director fees in common stock                              | 34                                     | 29       | 212                                   | 153      |
| Total stock-based compensation expense                             | \$ 1,275                               | \$ 2,961 | \$ 5,997                              | \$ 5,572 |

| Stock-based Compensation Expense - by expense type<br>(in thousands, except per share data) | For the Three Months Ended<br>June 30, |          | For the Nine Months Ended<br>June 30, |          |
|---|--|----------|---------------------------------------|----------|
|   | 2012                                   | 2011     | 2012                                  | 2011     |
|   | Cost of revenue                        | \$ 220   | \$ 614                                | \$ 1,289 |
| Selling, general, and administrative  | 708                                    | 1,342    | 2,954                                 | 2,898    |
| Research and development  | 347                                    | 1,005    | 1,754                                 | 1,607    |
| Total stock-based compensation expense  | \$ 1,275                               | \$ 2,961 | \$ 5,997                              | \$ 5,572 |
| Net effect on net loss per basic and diluted share  | \$(0.05)                               | \$(0.13) | \$(0.26)                              | \$(0.25) |

**Loss Per Share.** Our loss per share amounts were calculated by dividing net loss applicable to common stock by the weighted average number of common stock shares outstanding for the period and it is presented in the accompanying consolidated statements of operations and comprehensive loss. For the three and nine months ended June 30, 2012, stock options representing 2,109,032 shares of common stock, non-vested restricted stock awards representing 257,390 shares of common stock, non-vested restricted stock units representing 865,783 shares of common stock, and outstanding warrants representing 750,010 shares of common stock were excluded from the computation of diluted earnings per share since we incurred a net loss for these periods and any effect would have been anti-dilutive. For the three and nine months ended June 30, 2011, stock options representing 2,274,387 shares of common stock, non-vested restricted stock awards representing 415,225 shares of common stock, and outstanding warrants representing 750,010 shares of common stock were excluded from the computation of diluted earnings per share since we incurred a net loss for these periods and any effect would have been anti-dilutive. For the three and nine months ended June 30, 2012 and 2011, non-vested restricted stock awards, which are considered participating securities, were excluded from the computation of basic earnings per share since we incurred a net loss for these periods.

#### Future Issuances

As of June 30, 2012, we had common stock reserved for the following future issuances:

| <b>Future Issuances</b>                                      | <b>Number of Common Stock Shares Available for Future Issuances</b> |
|--|---|
| Exercise of outstanding stock options                        | 2,109,032   |
| Purchases under the employee stock purchase plan             | 900,956   |
| Issuance of stock-based awards under the Equity Plans        | 1,033,685   |
| Exercise of outstanding warrants                             | 750,010   |
| Purchases under the officer and director share purchase plan | 96,446  |
| Total reserved   | 4,890,129   |

#### **NOTE 13. Segment Data and Related Information**

We have four operating divisions within the following two reporting segments:

- **Fiber Optics:** EMCORE Digital Fiber Optics Products and EMCORE Broadband Fiber Optics Products are aggregated as a separate reporting segment, Fiber Optics. Our Fiber Optics reporting segment provides optical components, subsystems, and systems for high-speed telecommunications, cable television (CATV), and fiber-to-the-premise (FTTP) networks, as well as products for satellite communications, video transport, and specialty photonics technologies for defense and homeland security applications.
- **Photovoltaics:** EMCORE Photovoltaics and EMCORE Solar Power are aggregated as a separate reporting segment, Photovoltaics. Our Photovoltaics reporting segment provides products for both space and terrestrial solar power applications. For space solar power applications, we offer high-efficiency multi-junction solar cells, covered interconnect cells (CICs), and complete satellite solar panels. For terrestrial solar power applications, we offer a broad portfolio of concentrator photovoltaics (CPV) multi-junction solar cells and components, as well as commercial rooftop solar concentrator systems.

We evaluate our reportable segments pursuant to ASC 280, *Segment Reporting*. The Company's Chief Executive Officer is the chief operating decision maker and he assesses the performance of the operating segments and allocates resources to segments based on their business prospects, competitive factors, net revenue, operating results, and other non-GAAP financial ratios.



**Revenue:** The following tables set forth revenue attributable to each of our reporting segments and by geographic region with revenue assigned to geographic regions based on our customers' billing address.

| Segment Revenue<br>(in thousands) | For the Three Months Ended<br>June 30, |           | For the Nine Months Ended<br>June 30, |            |
|-----------------------------------|--|-----------|---------------------------------------|------------|
|                                   | 2012                                   | 2011      | 2012                                  | 2011       |
|                                   | Fiber Optics revenue                   | \$ 25,827 | \$ 33,253                             | \$ 66,068  |
| Photovoltaics revenue             | 15,235                                 | 16,227    | 50,225                                | 54,068     |
| Total revenue                     | \$ 41,062                              | \$ 49,480 | \$ 116,293                            | \$ 148,805 |

| Revenue by Geographic Region<br>(in thousands) | For the Three Months Ended<br>June 30, |           | For the Nine Months Ended<br>June 30, |            |
|--|--|-----------|---------------------------------------|------------|
|  | 2012                                   | 2011      | 2012                                  | 2011       |
|  | United States                          | \$ 30,249 | \$ 35,318                             | \$ 79,466  |
| Asia   | 7,413                                  | 10,389    | 17,898                                | 27,326     |
| Europe   | 1,333                                  | 2,558     | 4,877                                 | 7,006      |
| Other (*)                                      | 2,067                                  | 1,215     | 14,052                                | 9,374      |
| Total revenue                                  | \$ 41,062                              | \$ 49,480 | \$ 116,293                            | \$ 148,805 |

(\*) The fiscal 2012 year-to-date increase in the geographic revenue "Other" category represents orders shipped to customers located in Israel and Russia. We do not expect sales to be significant to these geographic locations in future periods.

**Impact from Thailand Flood:** In October 2011, we announced that flood waters had severely impacted the inventory and production operations of our primary contract manufacturer in Thailand. The impacted areas included certain product lines for the Telecom and Cable Television (CATV) market segments. This has had a significant impact on our operations and our ability to meet customer demand for certain of our fiber optics products in the near term. Our Photovoltaics segment was not affected by the Thailand floods. See [Note 9 - Flood-related Losses](#) for additional disclosures related to the impact of the Thailand flood on our operations.

**Sale of Fiber Optics-related Assets:** On May 7, 2012, we sold certain assets and transferred certain inventory purchase obligations associated with our Fiber Optics segment to SEI. See [Note 1 - Basis of Presentation](#) for additional disclosures related to this asset sale.

**Significant Customers:** During the three and nine months ended June 30, 2012, Loral Space & Communications, a customer associated with our Photovoltaics segment, represented 16% and 15%, respectively, of our total consolidated revenue. For the three months ended June 30, 2011, Cisco Systems, Inc., a customer associated with our Fiber Optics segment, represented 10% of our total consolidated revenue. For the nine months ended June 30, 2011, Loral Space & Communications represented 12% of our total consolidated revenue.

**Operating Loss:** The following table sets forth operating loss attributable to each of our reporting segments.

| Statement of Operations Data<br>(in thousands) | For the Three Months Ended<br>June 30, |             | For the Nine Months Ended<br>June 30, |             |
|--|--|-------------|---------------------------------------|-------------|
|  | 2012                                   | 2011        | 2012                                  | 2011        |
|  | Fiber Optics operating loss            | \$ (3,840)  | \$ (7,554)                            | \$ (22,284) |
| Photovoltaics operating loss                   | (4,918)                                | (3,647)     | (7,048)                               | (920)       |
| Total operating loss                           | \$ (8,758)                             | \$ (11,201) | \$ (29,332)                           | \$ (18,170) |

**Non-Cash Expenses:** The following tables sets forth our significant non-cash expenses attributable to each of our reporting segments.

| Depreciation, Amortization, and Accretion Expense<br>(in thousands) | For the Three Months Ended<br>June 30, |          | For the Nine Months Ended<br>June 30, |          |
|---|--|----------|---------------------------------------|----------|
|   | 2012                                   | 2011     | 2012                                  | 2011     |
|   | Fiber Optics segment                   | \$ 993   | \$ 1,644                              | \$ 3,919 |
| Photovoltaics segment   | 973                                    | 1,289    | 3,199                                 | 3,981    |
| Total depreciation, amortization, and accretion expense             | \$ 1,966                               | \$ 2,933 | \$ 7,118                              | \$ 8,903 |

| Stock-based Compensation Expense<br>(in thousands) | For the Three Months Ended<br>June 30, |          | For the Nine Months Ended<br>June 30, |          |
|--|--|----------|---------------------------------------|----------|
|  | 2012                                   | 2011     | 2012                                  | 2011     |
|  | Fiber Optics segment                   | \$ 843   | \$ 1,876                              | \$ 3,813 |
| Photovoltaics segment                              | 432                                    | 1,085    | 2,184                                 | 2,094    |
| Total stock-based compensation expense             | \$ 1,275                               | \$ 2,961 | \$ 5,997                              | \$ 5,572 |

**Long-lived Assets:** Long-lived assets consist primarily of property, plant, and equipment and also goodwill and intangible assets. The following table sets forth long-lived assets for each of our reporting segments and our unallocated Corporate division.

| (in thousands)                 | As of<br>June 30,    |                    | As of     |  |
|--------------------------------|----------------------|--------------------|-----------|--|
|                                | 2012                 | September 30, 2011 |           |  |
|                                | Fiber Optics segment | \$ 23,267          | \$ 26,483 |  |
| Photovoltaics segment          | 40,874               | 45,546             |           |  |
| Unallocated Corporate division | 6,911                | 1,007              |           |  |
| Long-lived assets              | \$ 71,052            | \$ 73,036          |           |  |

During the three months ended June 30, 2012, we reclassified building and improvements associated with our Fiber Optics segment that was not sold as part of the asset sale to SEI to our unallocated Corporate division.

As of June 30, 2012 and September 30, 2011, approximately 92% and 93%, respectively, of our long-lived assets were located in the United States.

**NOTE 14. Suncore Joint Venture**

On July 30, 2010, we entered into a joint venture agreement with San'an Optoelectronics Co., Ltd. (San'an), for the purpose of engaging in the development, manufacturing, and distribution of CPV receivers, modules, and systems for terrestrial solar power applications under a technology license from us. The joint venture, Suncore Photovoltaic Technology Co., Ltd. (Suncore), is a limited liability company under the laws of the People's Republic of China.

Initially, the total registered capital of Suncore was \$30.0 million, of which San'an contributed \$18.0 million in cash and EMCORE contributed \$12.0 million in cash. In addition, we entered into a Cooperation Agreement with an affiliate of San'an whereby we received \$8.5 million in consulting fees in exchange for the technology license and related support and strategic consulting services to Suncore, which was recorded as a reduction to our investment in Suncore resulting in a basis difference. During the nine months ended June 30, 2012, we began amortizing this basis difference in our equity investment over an estimated five-year technology useful life using the straight-line amortization method.

During the nine months ended June 30, 2012, Suncore increased its registered capital by recording a deemed capital distribution of \$37.0 million which was distributed and reinvested in proportion to each entity's registered capital, of which San'an was allocated \$22.2 million and EMCORE was allocated \$14.8 million. During this same period, Suncore also recorded a cash dividend of approximately \$4.1 million in proportion to each entity's registered capital of which San'an received \$2.5 million and EMCORE received \$1.6 million. We recorded the cash dividend as a reduction in our investment in Suncore. We incurred foreign income tax of approximately \$1.6 million associated with these capital distributions which is presented under the caption 'foreign income tax expense on capital distributions' on our statement of operations and comprehensive loss. EMCORE's cash dividend was equal to the foreign income tax expense incurred on these capital distributions.

In August 2011, we signed a solar rooftop CPV development agreement with Suncore pursuant to which we will collaborate on the development and application of the current 500X and next-generation 1000X rooftop CPV systems. In summary, Suncore agreed to purchase joint ownership rights to rooftop CPV intellectual property and reimburse us 50% of all research and development costs incurred related to rooftop CPV solutions in exchange for joint ownership rights to the newly developed intellectual property. In addition, Suncore agreed to pay us a development fee of 20% on research and development costs billed to Suncore with a maximum development fee payout of approximately \$0.2 million. During the nine months ended June 30, 2012, we billed Suncore approximately \$0.9 million for research and development costs and recognized \$0.2 million in development fees.

In November 2011, we agreed to grant Suncore an exclusive license to use certain intellectual property and know-how, both existing and to-be-developed, related to the fabrication process and testing of terrestrial CPV solar cells on terrestrial CPV solar systems solely within the PRC, Hong Kong, Macau, and Taiwan (the licensed territory) and be able to use, market, and sell the terrestrial CPV solar cells worldwide, excluding only the United States. This licensing agreement valued at \$2.5 million does not include intellectual property associated with the development of space qualified or radiation hardened solar cells. Suncore has not fulfilled all the requirements necessary to initiate payment for this license; as a result, we did not record any receivables from Suncore associated with this license agreement as of June 30, 2012.

Pursuant to the joint venture agreement, San'an and EMCORE share the profits, losses, and risks of Suncore in proportion to and, in the event of losses, to the extent of their respective contributions to the registered capital of Suncore. We continue to hold a 40% registered ownership in Suncore and we recorded a loss associated with our Suncore joint venture totaling \$1.2 million for the nine months ended June 30, 2012. As of June 30, 2012, our cumulative proportionate loss in Suncore has exceeded our net investment in Suncore by approximately \$2.1 million. Pursuant to ASC 323-10, *Investments—Equity Method and Joint Ventures – Overall*, we stopped recording our proportionate share of Suncore's loss after our investment declined to a zero value since we have no obligation or intent to fund the deficit balance. We will resume applying the equity method only after our share of net income in Suncore equals the share of net losses not recognized during the period we suspended using the equity method.

See [Note 15 - Subsequent Events](#) for disclosures related to the recently signed definitive agreement which will consolidate the Company's terrestrial CPV system engineering and development efforts into Suncore.

**NOTE 15. Subsequent Events**

Business Realignment

On August 5, 2012, we entered into a definitive agreement which will consolidate the Company's terrestrial CPV system engineering and development efforts, for both ground mount and rooftop terrestrial CPV products, into the Company's joint venture, Suncore. EMCORE employees who are currently engaged in terrestrial CPV product and business development, as well as key engineering, sales, and marketing personnel, will be transferred to Suncore. Suncore will fund all ongoing R&D, marketing, sales, and business development functions related to terrestrial CPV systems. EMCORE will continue to own all of its intellectual property related to solar cell technology and maintain investment activities to advance CPV solar cell performance to serve a broader customer base within the CPV industry.

Executive Officer

On August 6, 2012, Mr. Reuben Richards, Jr. proposed to the Board to step-down from his position as the Company's Executive Chairman and all other positions he held as an officer or employee of the Company and its affiliates, effective as of September 30, 2012. Mr. Richards will remain as Chairman of the Board and a member of the Board.

The Company and Mr. Richards entered into a separation agreement and general release, dated August 6, 2012 (Separation Agreement), which includes mutual releases by Mr. Richards and the Company of all claims related to Mr. Richards' employment and service relationship with, and termination of employment and service from, the Company. Under the terms of the Separation Agreement, Mr. Richards acknowledged and agreed that the restrictive covenants contained in his employment agreement would remain in full force and effect. The separation agreement provides for among other things, the continuation of his base salary for 88 weeks, benefits for 18 months, and immediate vesting of all his outstanding non-vested equity awards. These payments are not contingent upon any future service by Mr. Richards. The Company expects to record a charge of \$1.2 million related to Mr. Richards' separation agreement. Mr. Richards has the unilateral right to revoke the Separation Agreement by providing written notice to the Company on or before August 13, 2012.

## ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

*You should read the following discussion of our financial condition and results of operations in conjunction with the financial statements and the notes thereto included in [Financial Statements](#) under [Item 1](#) within this Quarterly Report. The following discussion contains forward-looking statements that reflect our plans, estimates, and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to such differences in results and outcomes include without limitation those discussed under [Item 1A - Risk Factors](#) in our Annual Report on Form 10-K for the fiscal year ended September 30, 2011, and in this Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2012, as updated by our subsequent periodic reports. These cautionary statements apply to all forward-looking statements wherever they appear in this Quarterly Report.*

### **Business Overview**

EMCORE Corporation and its subsidiaries (the "Company", "we", "our", or "EMCORE") offers a broad portfolio of compound semiconductor-based products for the fiber optics and solar power markets. We were established in 1984 as a New Jersey corporation and we have two reporting segments: Fiber Optics and Photovoltaics. Our Fiber Optics reporting segment provides optical components, subsystems, and systems for high-speed telecommunications, cable television (CATV), and fiber-to-the-premise (FTTP) networks, as well as products for satellite communications, video transport, and specialty photonics technologies for defense and homeland security applications. Our Photovoltaics reporting segment provides products for both space and terrestrial solar power applications. For space solar power applications, we offer high-efficiency multi-junction solar cells, covered interconnect cells (CICs), and complete satellite solar panels. For terrestrial solar power applications, we offer a broad portfolio of concentrator photovoltaics (CPV) multi-junction solar cells and components, as well as commercial rooftop solar concentrator systems.

Our headquarters and principal executive offices are located at 10420 Research Road, SE, Albuquerque, New Mexico, 87123, and our main telephone number is (505) 332-5000. For specific information about us, our products, or the markets we serve, please visit our website at <http://www.emcore.com>. The information contained in or linked to our website is not a part of, nor incorporated by reference into, this Quarterly Report on Form 10-Q or a part of any other report or filing with the Securities and Exchange Commission.

See [Note 15 - Subsequent Events](#) in the notes to the consolidated financial statements for disclosures related to the recently signed definitive agreement which will consolidate the Company's terrestrial CPV system engineering and development efforts into the Company's joint venture.

### **Impact from Thailand Flood**

In October 2011, we announced that flood waters had severely impacted the inventory and production operations of our primary contract manufacturer in Thailand. The impacted areas included certain product lines for the Telecom and Cable Television (CATV) market segments. This has had a significant impact on our operations and our ability to meet customer demand for certain of our fiber optics products in the near term. Our Photovoltaics segment was not affected by the Thailand floods.

Since that announcement, we have developed and implemented a plan to rebuild the impacted production lines at other locations, including an alternate facility of our contract manufacturer in Thailand, as well as our own manufacturing facilities in the United States and China. Our production line for ITLAs (Integrable Tunable Laser Assemblies) for 40 and 100 Gb/s (Gigabit per second) coherent telecom applications has been up and running since April 2012 at our contract manufacturer in Thailand. Production line qualification has been completed and most customers have successfully completed full-line audits and started taking shipments in April. As of July 2012, our ITLA line is operating at pre-flood capacity production levels. The CATV laser module and transmitter production lines at our manufacturing facility in China reached pre-flood capacity production levels in mid July 2012. We expect our tunable small form factor pluggable (TXFP) transceiver line at our contract manufacturer in Thailand to reach volume production levels by October 2012. In the meantime, TXFP manufacturing is continuing at our Newark, California facility. See [Note 9 - Flood-related Losses](#) in the notes to the consolidated financial statements for additional disclosures related to the impact of the Thailand flood on our operations.

**Sale of Fiber Optics-related Assets**

On March 27, 2012, we entered into a Master Purchase Agreement with a subsidiary of Sumitomo Electric Industries, LTD (SEI), pursuant to which we agreed to sell certain assets and transfer certain obligations associated with our Fiber Optics segment. On May 7, 2012, we completed the sale of these assets to SEI and recorded a gain of approximately \$2.8 million. The assets sold included inventory, fixed assets, and intellectual property which enabled approximately \$1.8 million and \$9.2 million of revenue from sales of datacom, parallel optical devices and EMCORE Connects Cable products during the three and nine months ended June 30, 2012, respectively. We have indemnified SEI up to \$3.4 million for potential claims and expenses for the two-year period following the sale and we have recorded this amount as a deferred gain on our balance sheet as of June 30, 2012 as a result of certain contingencies. SEI paid \$13.1 million in cash and deposited approximately \$2.6 million into escrow as security for indemnification obligations and any purchase price adjustments. Payment of escrow amounts occurs over a two-year period and is subject to claim adjustments. We deferred approximately \$4.9 million of the gain on sale until the indemnification obligation and purchase price adjustment contingencies are resolved. See [Note 1 - Basis of Presentation](#) in the notes to the consolidated financial statements for additional disclosures related to this asset sale.

**Results of Operations**

The following table sets forth our consolidated statements of operations data expressed as a percentage of revenue.

|   | For the Three Months Ended<br>June 30, |         | For the Nine Months Ended<br>June 30, |         |
|---|--|---------|---------------------------------------|---------|
|   | 2012                                   | 2011    | 2012                                  | 2011    |
| Revenue   | 100.0 %                                | 100.0 % | 100.0 %                               | 100.0 % |
| Cost of revenue                                     | 89.3                                   | 80.9    | 88.6                                  | 78.0    |
| Gross profit  | 10.7                                   | 19.1    | 11.4                                  | 22.0    |
| Operating expense (income):                         |  |         |                                       |         |
| Selling, general, and administrative                | 21.3                                   | 19.5    | 21.2                                  | 18.3    |
| Research and development                            | 12.2                                   | 19.3    | 15.3                                  | 16.6    |
| Impairment  | 3.5                                    | —       | 1.2                                   | —       |
| Litigation settlements, net                         | 2.6                                    | 3.0     | 0.9                                   | (0.8)   |
| Flood-related loss (recovery)                       | (0.7)                                  | —       | 4.7                                   | —       |
| Flood-related insurance proceeds                    | —                                      | —       | (4.3)                                 | —       |
| Gain on sale of assets                              | (6.8)                                  | —       | (2.4)                                 | —       |
| Total operating expense                             | 32.1                                   | 41.8    | 36.6                                  | 34.1    |
| Operating loss                                      | (21.4)                                 | (22.7)  | (25.2)                                | (12.1)  |
| Other income (expense):                             |  |         |                                       |         |
| Interest expense, net                               | (0.4)                                  | (0.3)   | (0.3)                                 | (0.3)   |
| Foreign exchange gain (loss)                        | (0.5)                                  | 1.3     | 0.1                                   | 0.7     |
| Loss from equity method investment                  | —                                      | (0.5)   | (1.0)                                 | (0.6)   |
| Change in fair value of financial instruments       | 0.1                                    | (0.2)   | (0.1)                                 | (1.0)   |
| Other expense                                       | —                                      | —       | —                                     | —       |
| Total other income (expense)                        | (0.8)                                  | 0.3     | (1.3)                                 | (1.2)   |
| Loss before income tax expense                      | (22.2)                                 | (22.4)  | (26.5)                                | (13.3)  |
| Foreign income tax expense on capital distributions | —                                      | —       | (1.4)                                 | —       |
| Net loss  | (22.2)%                                | (22.4)% | (27.9)%                               | (13.3)% |

**Comparison of financial results:****Revenue:**

(in thousands, except percentages)

|                       | For the Three Months Ended June 30, |           |            |          |
|-----------------------|-------------------------------------|-----------|------------|----------|
|                       | 2012                                | 2011      | \$ Change  | % Change |
| Fiber Optics revenue  | \$ 25,827                           | \$ 33,253 | \$ (7,426) | (22.3)%  |
| Photovoltaics revenue | 15,235                              | 16,227    | (992)      | (6.1)%   |
| Total revenue         | \$ 41,062                           | \$ 49,480 | \$ (8,418) | (17.0)%  |

  

|                       | For the Nine Months Ended June 30, |            |             |          |
|-----------------------|------------------------------------|------------|-------------|----------|
|                       | 2012                               | 2011       | \$ Change   | % Change |
| Fiber Optics revenue  | \$ 66,068                          | \$ 94,737  | \$ (28,669) | (30.3)%  |
| Photovoltaics revenue | 50,225                             | 54,068     | (3,843)     | (7.1)%   |
| Total revenue         | \$ 116,293                         | \$ 148,805 | \$ (32,512) | (21.8)%  |

On a consolidated basis, we expect revenue for our fourth quarter ended September 30, 2012 to be in the range of \$46 to \$49 million.

**Fiber Optics Revenue**

Our Fiber Optics reporting segment provides optical components, subsystems, and systems for high-speed telecommunications, cable television (CATV), and fiber-to-the-premise (FTTP) networks, as well as products for satellite communications, video transport, and specialty photonics technologies for defense and homeland security applications. Our Fiber Optics segment is broken out into two distinct product lines:

- Broadband products, which includes cable television products, fiber-to-the-premises products, satellite communication products, and defense and homeland security products; and,
- Digital products, which include telecom optical products.

**Broadband product revenue:**

- For the three months ended June 30, 2012, revenue from broadband products decreased 25% from the prior year which was primarily driven by decreased unit shipments of CATV-related products slightly offset by increased unit shipments of FTTX and specialty-related products. The decrease in revenue was primarily due to the impact of the Thailand flood. Sales of our CATV-related products, which include our quadrature amplitude modulation (QAM) transmitters and receivers, represents the largest percentage of our total fiber optics-related revenue.
- For the nine months ended June 30, 2012, revenue from broadband products decreased 34% from the prior year which was primarily driven by decreased unit shipments of our CATV-related products slightly offset by increased unit shipments of FTTX and specialty-related products. The decrease in revenue was primarily due to the impact of the Thailand flood.

**Digital product revenue:**

- For the three months ended June 30, 2012, revenue from digital products decreased approximately 36% from the prior year which was primarily due to the Thailand flood. Unit shipments of datacom and telecom optical-related products were lower when compared to the prior year. Our telecom optical-related product line, which includes tunable XFP and integrated tunable laser assemblies (ITLAs), represents the second largest percentage of our total fiber optics-related revenue. Revenue from our enterprise digital products increased by approximately 43% when compared to the prior period due to increased unit shipments of EMCORE Connect Cables. Our enterprise digital product lines were sold to SEI in May 2012.

- For the nine months ended June 30, 2012, revenue from digital products decreased 36% from the prior year which was primarily due to the Thailand flood. Unit shipments of datacom and telecom optical-related products were lower when compared to the prior year. Revenue from our enterprise digital products increased by approximately 113% when compared to the prior period due to increased unit shipments of EMCORE Connect Cables. Our enterprise digital product lines were sold to SEI in May 2012.

Our Fiber Optics segment accounted for 62.9% and 67.2% of our consolidated revenue for the three months ended June 30, 2012 and 2011, respectively, and 56.8% and 63.7% of our consolidated revenue for the nine months ended June 30, 2012 and 2011, respectively.

#### Photovoltaics Revenue:

Our Photovoltaics reporting segment provides products for both space and terrestrial solar power applications. For space solar power applications, we offer high-efficiency multi-junction solar cells, covered interconnect cells (CICs), and complete satellite solar panels. For terrestrial solar power applications, we offer a broad portfolio of concentrator photovoltaics (CPV) multi-junction solar cells and components, as well as commercial rooftop solar concentrator systems.

For the three and nine months ended June 30, 2012, revenue from satellite applications decreased approximately 12% and 11%, respectively, from the prior year. The decrease was primarily driven by lower volume sales of space solar cell CIC products. Sales of our satellite solar cells and CICs products represents the largest percentage of our total photovoltaics-related revenue. Historically, our Photovoltaics revenue has fluctuated significantly due to timing of program completions and product shipments of major orders. Revenue from our terrestrial-related products was not significant as a percentage of total photovoltaics-related revenue.

Our Photovoltaics segment accounted for 37.1% and 32.8% of our consolidated revenue for the three months ended June 30, 2012 and 2011, respectively, and 43.2% and 36.3% of our consolidated revenue for the nine months ended June 30, 2012 and 2011, respectively.

#### **Gross Profit:**

*(in thousands, except percentages)*

|                            | <b>For the Three Months Ended June 30,</b> |                 |                   |                 |
|----------------------------|--|-----------------|-------------------|-----------------|
|                            | <b>2012</b>                                | <b>2011</b>     | <b>\$ Change</b>  | <b>% Change</b> |
| Fiber Optics gross profit  | \$ 2,410                                   | \$ 6,451        | \$ (4,041)        | (62.6)%         |
| Photovoltaics gross profit | 1,975                                      | 3,019           | (1,044)           | (34.6)%         |
| Total gross profit         | <u>\$ 4,385</u>                            | <u>\$ 9,470</u> | <u>\$ (5,085)</u> | <u>(53.7)%</u>  |

|                            | <b>For the Nine Months Ended June 30,</b> |                  |                    |                 |
|----------------------------|---|------------------|--------------------|-----------------|
|                            | <b>2012</b>                               | <b>2011</b>      | <b>\$ Change</b>   | <b>% Change</b> |
| Fiber Optics gross profit  | \$ 3,594                                  | \$ 17,649        | \$ (14,055)        | (79.6)%         |
| Photovoltaics gross profit | 9,635                                     | 15,081           | (5,446)            | (36.1)%         |
| Total gross profit         | <u>\$ 13,229</u>                          | <u>\$ 32,730</u> | <u>\$ (19,501)</u> | <u>(59.6)%</u>  |

Our cost of revenue consists of raw materials, compensation expense including non-cash stock-based compensation expense, depreciation expense and other manufacturing overhead costs, expenses associated with excess and obsolete inventories, and product warranty costs. Historically, our cost of revenue, as a percentage of revenue, has fluctuated largely due to inventory and product warranty charges. Our gross margins are also affected by product mix, manufacturing yields and volumes, and timing related to the completion of long-term contracts.



Consolidated gross margins were 10.7% and 19.1% for the three months ended June 30, 2012 and 2011, respectively, and 11.4% and 22.0% for the nine months ended June 30, 2012 and 2011, respectively.

Product warranty expense totaled approximately \$0.2 million and \$0.3 million during the nine months ended June 30, 2012 and 2011, respectively.

Stock-based compensation expense within cost of revenue totaled \$0.2 million and \$0.6 million during the three months ended June 30, 2012 and 2011, respectively, and approximately \$1.3 million and \$1.1 million during the nine months ended June 30, 2012 and 2011, respectively.

#### Fiber Optics Gross Profit:

Fiber Optics gross margin was 9.3% and 19.4% for the three months ended June 30, 2012 and 2011, respectively, and 5.4% and 18.6% for the nine months ended June 30, 2012 and 2011, respectively.

Inventory excess and obsolescence expense totaled approximately \$3.7 million and \$1.0 million during the three months ended June 30, 2012 and 2011, respectively, and approximately \$9.6 million and \$4.5 million during the nine months ended June 30, 2012 and 2011, respectively.

For the nine months ended June 30, 2012, gross margins decreased from both our broadband and digital product lines when compared to the prior year. During the period, lower revenues due to the impact from the Thailand flood resulted in higher manufacturing overhead as a percentage of revenue. Manufacturing of certain fiber optics-related components was moved to Company-owned facilities which involved higher labor and other related costs. Gross margins will continue to be negatively impacted in subsequent quarters until we are able to substantially restore operations, the supply chain infrastructure is re-established, and we regain any lost market share.

Instead of completely rebuilding all flood-damaged manufacturing lines in Thailand, management has decided to realign the Company's fiber optics product portfolio and focus on business areas with strong technology differentiation and growth opportunities. Management identified certain inventory on order related to manufacturing product lines that were destroyed by the Thailand flood and will not be replaced. This expense, which totaled \$0.3 million and \$1.6 million for the three and nine months ended June 30, 2012, respectively, was recorded within cost of revenue on our statement of operations and comprehensive loss.

#### Photovoltaics Gross Profit:

Photovoltaics gross margin was 13.0% and 18.6% for the three months ended June 30, 2012 and 2011, respectively, and 19.2% and 27.9% for the nine months ended June 30, 2012 and 2011, respectively.

For the three and nine months ended June 30, 2012, gross margins decreased from our satellite application product lines when compared to the prior year primarily due to lower revenues with unfavorable product mix changes, as well as lower manufacturing yields.

#### **Sales, General and Administrative (SG&A):**

*(in thousands, except percentages)*

|              | <b>For the Three Months Ended June 30,</b> |             |                  |                 |
|--------------|--|-------------|------------------|-----------------|
|              | <b>2012</b>                                | <b>2011</b> | <b>\$ Change</b> | <b>% Change</b> |
| SG&A expense | \$ 8,758                                   | \$ 9,657    | \$ (899)         | (9.3)%          |

  

|              | <b>For the Nine Months Ended June 30,</b> |             |                  |                 |
|--------------|---|-------------|------------------|-----------------|
|              | <b>2012</b>                               | <b>2011</b> | <b>\$ Change</b> | <b>% Change</b> |
| SG&A expense | \$ 24,603                                 | \$ 27,301   | \$ (2,698)       | (9.9)%          |

SG&A consists primarily of compensation expense including non-cash stock-based compensation expense related to executive, finance, and human resources personnel, as well as sales and marketing expenses, professional fees, amortization expense on intangible assets, legal and patent-related costs, and other corporate-related expenses.

Stock-based compensation expense within SG&A totaled \$0.7 million and \$1.3 million during the three months ended June 30, 2012 and 2011, respectively, and approximately \$3.0 million and \$2.9 million during the nine months ended June 30, 2012 and 2011, respectively.

The decrease in SG&A expense for the three and nine months ended June 30, 2012 when compared to the prior year was attributable to cost reduction measures implemented which include a reduction of discretionary spending on staffing and infrastructure, as well as lower stock-based compensation expense.

As a percentage of revenue, SG&A expenses were 21.3% and 19.5% for the three months ended June 30, 2012 and 2011, respectively, and 21.2% and 18.3% for the nine months ended June 30, 2012 and 2011, respectively.

#### Research and Development (R&D):

(in thousands, except percentages)

|             | For the Three Months Ended June 30, |          |            |          |
|-------------|-------------------------------------|----------|------------|----------|
|             | 2012                                | 2011     | \$ Change  | % Change |
| R&D expense | \$ 4,996                            | \$ 9,549 | \$ (4,553) | (47.7)%  |

  

|             | For the Nine Months Ended June 30, |           |            |          |
|-------------|------------------------------------|-----------|------------|----------|
|             | 2012                               | 2011      | \$ Change  | % Change |
| R&D expense | \$ 17,757                          | \$ 24,724 | \$ (6,967) | (28.2)%  |

R&D consists primarily of compensation expense including non-cash stock-based compensation expense, as well as engineering and prototype costs, depreciation expense, and other overhead expenses, as they related to the design, development, and testing of our products. Our R&D costs are expensed as incurred. We believe that in order to remain competitive, we must invest significant financial resources in developing new product features and enhancements and in maintaining customer satisfaction worldwide.

Stock-based compensation expense within R&D totaled \$0.3 million and \$1.0 million during the three months ended June 30, 2012 and 2011, respectively, and approximately \$1.8 million and \$1.6 million during the nine months ended June 30, 2012 and 2011, respectively.

The decrease in R&D expense for the three and nine months ended June 30, 2012 when compared to the prior year was attributable to cost reduction measures discussed above, as well as lower expense incurred related to our development of our TXFP transceiver when compared to the prior year, and due to the sale of our vertical cavity surface emitting lasers (VCSEL)-based and enterprise-related product lines in May 2012. In August 2011, we signed a solar rooftop CPV development agreement with our Suncore joint venture pursuant to which we will collaborate on the development and application of the current 500X and next-generation 1000X rooftop CPV systems. During the three and nine months ended June 30, 2012, we billed Suncore approximately \$0.3 million and \$0.9 million, respectively, for research and developments costs incurred.

As a percentage of revenue, R&D expenses were 12.2% and 19.3% for the three months ended June 30, 2012 and 2011, respectively, and 15.3% and 16.6% for the nine months ended June 30, 2012 and 2011, respectively.

**Other Operating Expense (Income):**

(in thousands, except percentages)

|                               | <b>For the Three Months Ended June 30,</b> |             |                  |                 |
|-------------------------------|--|-------------|------------------|-----------------|
|                               | <b>2012</b>                                | <b>2011</b> | <b>\$ Change</b> | <b>% Change</b> |
| Impairment                    | \$ 1,425                                   | \$ —        | \$ 1,425         | —               |
| Litigation settlements, net   | \$ 1,050                                   | \$ 1,465    | \$ (415)         | (28.3)%         |
| Flood-related loss (recovery) | \$ (293)                                   | \$ —        | \$ (293)         | —%              |
| Gain on sale of assets        | \$ (2,793)                                 | \$ —        | \$ (2,793)       | —%              |

|                                  | <b>For the Nine Months Ended June 30,</b> |             |                  |                 |
|----------------------------------|---|-------------|------------------|-----------------|
|                                  | <b>2012</b>                               | <b>2011</b> | <b>\$ Change</b> | <b>% Change</b> |
| Impairment                       | \$ 1,425                                  | \$ —        | \$ 1,425         | —               |
| Litigation settlements, net      | \$ 1,050                                  | \$ (1,125)  | \$ 2,175         | 193.3%          |
| Flood-related loss (recovery)    | \$ 5,519                                  | \$ —        | \$ 5,519         | —%              |
| Flood-related insurance proceeds | \$ (5,000)                                | \$ —        | \$ (5,000)       | —%              |
| Gain on sale of assets           | \$ (2,793)                                | \$ —        | \$ (2,793)       | —%              |

**Impairment:**

As of June 30, 2012, we performed an evaluation of an asset group within our Photovoltaics segment for impairment of long-lived assets. The impairment test was triggered by a determination that it was more likely than not those assets would be sold or otherwise disposed of before the end of their previously estimated useful lives. As a result of the evaluation, we determined that impairment existed and a charge of \$1.4 million was recorded to write down the long-lived assets to an estimated fair value. Of the total impairment charge, \$1.1 million related to equipment and \$0.3 million related to intangible assets. See [Note 15 - Subsequent Events](#) in the notes to the consolidated financial statements for disclosures related to the recently signed definitive agreement which will consolidate the Company's terrestrial CPV system engineering and development efforts into the Company's joint venture.

**Litigation Settlements, net:**

In May 2012, we reached a confidential settlement regarding certain outstanding litigation in exchange for a release of all related claims. The settlement resulted in a charge of \$1.0 million in our statement of operations and comprehensive loss and was paid during the three months ended June 30, 2012.

In March 2011, we received a cash payment of approximately \$2.6 million in satisfaction of a judgment for damages, net of legal fees which were incurred on a contingency basis, associated with a lawsuit against Optium Corporation, currently part of Finisar Corporation, for patent infringement of certain patents related to our Fiber Optics segment. In June 2011, we recorded \$1.5 million for legal settlements considered probable, which was later settled in September 2011 and paid in October 2011 for the amount accrued.

**Flood-related Loss (Recovery):**

During the nine months ended June 30, 2012, we recorded estimated flood-related losses associated with damaged inventory and equipment of approximately \$3.7 million and \$1.8 million, respectively. We continue to evaluate our estimates of flood-related losses, and in future quarters we may record additional adjustments for damaged inventory and equipment. See [Note 9 - Flood-related Losses](#) in the notes to the consolidated financial statements for additional disclosures related to the impact of the Thailand flood on our operations.

**Flood-related Insurance Proceeds:**

We claimed damages and received proceeds of \$5.0 million under our own comprehensive insurance policy relating to business interruption and we recorded this amount as flood-related insurance proceeds during the nine months ended June 30, 2012. No additional business interruption insurance proceeds associated with this event are anticipated.

**Gain from sale of assets:** On March 27, 2012, we entered into a Master Purchase Agreement with a subsidiary of Sumitomo Electric Industries, LTD (SEI), pursuant to which we agreed to sell certain assets and transfer certain obligations associated with our Fiber Optics segment. On May 7, 2012, we completed the sale of these assets to SEI and recorded a gain of approximately \$2.8 million. We have indemnified SEI up to \$3.4 million for potential claims and expenses for the two-year period following the sale and we have recorded this amount as a deferred gain on our balance sheet as of June 30, 2012 as a result of certain contingencies. SEI paid \$13.1 million in cash and deposited approximately \$2.6 million into escrow as security for indemnification obligations and any purchase price adjustments. Payment of escrow amounts occurs over a two-year period and is subject to claim adjustments. We deferred approximately \$4.9 million of the gain on sale until the indemnification obligation and purchase price adjustment contingencies are resolved. See [Note 1 - Basis of Presentation](#) in the notes to the consolidated financial statements for additional disclosures related to this asset sale.

**Operating Loss:**

(in thousands, except percentages)

|                              | <b>For the Three Months Ended June 30,</b> |                    |                  |                 |
|------------------------------|--|--------------------|------------------|-----------------|
|                              | <b>2012</b>                                | <b>2011</b>        | <b>\$ Change</b> | <b>% Change</b> |
| Fiber Optics operating loss  | \$ (3,840)                                 | \$ (7,554)         | \$ 3,714         | 49.2%           |
| Photovoltaics operating loss | (4,918)                                    | (3,647)            | (1,271)          | (34.9)%         |
| Total operating loss         | <u>\$ (8,758)</u>                          | <u>\$ (11,201)</u> | <u>\$ 2,443</u>  | <u>21.8%</u>    |

|                              | <b>For the Nine Months Ended June 30,</b> |                    |                    |                 |
|------------------------------|---|--------------------|--------------------|-----------------|
|                              | <b>2012</b>                               | <b>2011</b>        | <b>\$ Change</b>   | <b>% Change</b> |
| Fiber Optics operating loss  | \$ (22,284)                               | \$ (17,250)        | \$ (5,034)         | (29.2)%         |
| Photovoltaics operating loss | (7,048)                                   | (920)              | (6,128)            | (666.1)%        |
| Total operating loss         | <u>\$ (29,332)</u>                        | <u>\$ (18,170)</u> | <u>\$ (11,162)</u> | <u>(61.4)%</u>  |

Income (loss) from operations represents revenue less the cost of revenue and direct operating expenses incurred within the operating segments as well as allocated expenses such as shared service departments. Income (loss) from operations is a measure of profit and loss that executive management uses to assess performance and make decisions. As a percentage of revenue, our operating loss was (21.4)% and (22.7)% for the three months ended June 30, 2012 and 2011, respectively, and (25.2)% and (12.1)% for the nine months ended June 30, 2012 and 2011, respectively.

**Other Income (Expense):***(in thousands, except percentages)*

|   | <b>For the Three Months Ended June 30,</b> |               |                  |                 |
|---|--|---------------|------------------|-----------------|
|   | <b>2012</b>                                | <b>2011</b>   | <b>\$ Change</b> | <b>% Change</b> |
| Interest expense, net                         | (146)                                      | (132)         | (14)             | (10.6)%         |
| Foreign exchange gain (loss)                  | (196)                                      | 625           | (821)            | (131.4)%        |
| Loss from equity method investment            | —  | (259)         | 259              | 100.0%          |
| Change in fair value of financial instruments | 61   | (107)         | 168              | 157.0%          |
| Other expense                                 | —  | (5)           | 5                | 100.0%          |
| Total other expense                           | <u>\$ (281)</u>                            | <u>\$ 122</u> | <u>\$ (403)</u>  | <u>(330.3)%</u> |

|   | <b>For the Nine Months Ended June 30,</b> |                   |                  |                 |
|---|---|-------------------|------------------|-----------------|
|   | <b>2012</b>                               | <b>2011</b>       | <b>\$ Change</b> | <b>% Change</b> |
| Interest expense, net                         | (396)                                     | (520)             | 124              | 23.8%           |
| Foreign exchange gain                         | 60  | 1,039             | (979)            | (94.2)%         |
| Loss from equity method investment            | (1,201)                                   | (846)             | (355)            | (42.0)%         |
| Change in fair value of financial instruments | (90)                                      | (1,417)           | 1,327            | 93.6%           |
| Other expense                                 | —   | (15)              | 15               | 100.0%          |
| Total other expense                           | <u>\$ (1,627)</u>                         | <u>\$ (1,759)</u> | <u>\$ 132</u>    | <u>7.5%</u>     |

**Foreign Exchange**

We recognize gains and losses due to the effect of exchange rate changes on foreign currency primarily due to our operations in Spain, the Netherlands, and in China. The assets and liabilities of our foreign operations are translated from their respective functional currencies into U.S. dollars at the rates in effect at the consolidated balance sheet dates, and the revenue and expense amounts are translated at the average rate during the applicable periods reflected on the consolidated statements of operations and comprehensive loss. Foreign currency translation adjustments are recorded as accumulated other comprehensive income. Gains and losses from foreign currency transactions denominated in currencies other than the U.S. dollar, both realized and unrealized, are recorded as foreign exchange gain (loss) on our consolidated statements of operations and comprehensive loss. A majority of the gain or losses recorded relates to the change in value of the euro and yuan renminbi relative to the U.S. dollar.

**Loss from Equity Method Investment**

We entered into a joint venture agreement in fiscal 2010 with San'an Optoelectronics Co., Ltd. (San'an) for the purpose of engaging in the development, manufacturing, and distribution of CPV receivers, modules, and systems for terrestrial solar power applications under a technology license from us. The joint venture, Suncore Photovoltaic Technology Co., Ltd. (Suncore) was established in January 2011. We have accounted for our investment in Suncore using the equity method of accounting. Pursuant to the joint venture agreement, San'an and EMCORE share the profits, losses, and risks of Suncore in proportion to and, in the event of losses, to the extent of their respective contributions to the registered capital of Suncore. We continue to hold a 40% registered ownership in Suncore and we recorded a loss associated with our Suncore joint venture totaling \$1.2 million for the nine months ended June 30, 2012. As of June 30, 2012, our cumulative proportionate loss in Suncore has exceeded our net investment in Suncore by approximately \$2.1 million. Pursuant to ASC 323-10, *Investments—Equity Method and Joint Ventures – Overall*, we stopped recording our proportionate share of Suncore's loss after our investment declined to a zero value since we have no obligation or intent to fund the deficit balance. We will resume applying the equity method only after our share of net income in Suncore equals the share of net losses not recognized during the period we suspended using the equity method. See [Note 14 - Suncore Joint Venture](#) in the notes to the consolidated financial statements for additional information related to our Suncore joint venture.

**Change in Fair Value of Financial Instruments**

As of June 30, 2012 and September 30, 2011, warrants representing 750,010 shares of our common stock were outstanding.

All of our warrants meet the classification requirements for liability accounting pursuant to ASC 815, *Derivatives and Hedging*. Each quarter, we expect an impact on our statement of operations and comprehensive loss when we record the change in fair value of our outstanding warrants using the Monte Carlo option valuation model. The Monte Carlo option valuation model is used since it allows the valuation of each warrant to factor in the value associated with our right to affect a mandatory exercise of each warrant. The valuation model requires the input of highly subjective assumptions, including the warrant's expected life and the price volatility of the underlying stock. The change in the fair value of our warrants has been primarily due to the change in the closing price of our common stock.

**Foreign Income Tax Expense on Capital Distributions**

During the nine months ended June 30, 2012, Suncore increased its registered capital by recording a deemed capital distribution of \$37.0 million which was distributed and reinvested in proportion to each entity's registered capital, of which San'an was allocated \$22.2 million and EMCORE was allocated \$14.8 million. During this same period, Suncore also recorded a cash dividend of approximately \$4.1 million in proportion to each entity's registered capital of which San'an received \$2.5 million and EMCORE received \$1.6 million. We recorded the cash dividend as a reduction in our investment in Suncore. We incurred foreign income tax of approximately \$1.6 million associated with these capital distributions which is presented under the caption 'foreign income tax expense on capital distributions' on our statement of operations and comprehensive loss. EMCORE's cash dividend was equal to the foreign income tax expense incurred on these capital distributions. See [Note 14 - Suncore Joint Venture](#) in the notes to the consolidated financial statements for additional information related to our Suncore joint venture.

**Net Loss:**

(in thousands, except percentages)

|          | <b>For the Three Months Ended June 30,</b> |             |                  |                 |
|----------|--|-------------|------------------|-----------------|
|          | <b>2012</b>                                | <b>2011</b> | <b>\$ Change</b> | <b>% Change</b> |
| Net loss | \$ (9,039)                                 | \$ (11,079) | \$ 2,040         | 18.4%           |

  

|          | <b>For the Nine Months Ended June 30,</b> |             |                  |                 |
|----------|---|-------------|------------------|-----------------|
|          | <b>2012</b>                               | <b>2011</b> | <b>\$ Change</b> | <b>% Change</b> |
| Net loss | \$ (32,603)                               | \$ (19,929) | \$ (12,674)      | (63.6)%         |

Net loss per basic and diluted share was \$0.38 and \$0.49 for the three months ended June 30, 2012 and 2011, respectively, and \$1.39 and \$0.91 for the nine months ended June 30, 2012 and 2011, respectively.

**Order Backlog:**

As of June 30, 2012, order backlog for our Photovoltaics segment totaled \$46.2 million, approximately a 17% decrease from \$55.7 million reported as of March 31, 2012. The backlog as of June 30, 2012 and March 31, 2012 included \$5.1 million and \$10.1 million, respectively, of terrestrial solar cell orders from our Suncore joint venture. Order backlog is defined as purchase orders or supply agreements accepted by us with expected product delivery and/or services to be performed within the next twelve months. From time to time, our customers may request that we delay shipment of certain orders and our order backlog could also be adversely affected if our customers unexpectedly cancel purchase orders that we have previously accepted.

Product sales from our Fiber Optics segment are made pursuant to purchase orders, often with short lead times. These orders are subject to revision or cancellation and often are made without deposits. Fiber optics products typically ship within the same quarter in which a purchase order is received; therefore, our order backlog at any particular date is not necessarily indicative of actual revenue or the level of orders for any succeeding period.

**Cash Flow:**Net Cash Used In Operating Activities*(in thousands, except percentages)*

|                                       | <b>For the Nine Months Ended June 30,</b> |             |                  |                 |
|---------------------------------------|---|-------------|------------------|-----------------|
|                                       | <b>2012</b>                               | <b>2011</b> | <b>\$ Change</b> | <b>% Change</b> |
| Net cash used in operating activities | \$ (4,026)                                | \$ (2,469)  | \$ (1,557)       | (63.1)%         |

Fiscal 2012:

For the nine months ended June 30, 2012, our operating activities used cash of approximately \$4.0 million. Our net loss of \$32.6 million, which included an approximately \$2.8 million gain from the sale of assets was partially offset by flood-related losses of approximately \$5.5 million, depreciation, amortization, and accretion expense of \$7.1 million, stock-based compensation expense of approximately \$6.0 million, provision for losses on inventory purchase commitments of \$1.6 million, and losses from our Suncore joint venture totaling \$1.2 million. The change in our current assets and liabilities of \$8.4 million was primarily the result of an increase in accounts payable of approximately \$9.8 million, accrued expenses and other current liabilities of approximately \$7.9 million, and a decrease in accounts receivable of approximately \$4.5 million; largely offset by an increase in inventory of \$13.5 million.

Fiscal 2011:

For the nine months ended June 30, 2011, our operating activities consumed cash of approximately \$2.5 million. Our net loss of \$19.9 million was offset by depreciation and amortization expense of \$8.9 million, stock-based compensation expense of approximately \$5.6 million, and the change in fair value of our outstanding warrants of \$1.4 million. The change in our current assets and liabilities of \$0.3 million was primarily the result of a decrease in accounts receivable of approximately \$2.4 million, an increase in accrued expenses and other current liabilities of \$2.1 million, and an increase in accounts payable of \$0.8 million; largely offset by an increase in other assets of \$4.5 million.

Net Cash Provided By (Used In) Investing Activities*(in thousands, except percentages)*

|   | <b>For the Nine Months Ended June 30,</b> |             |                  |                 |
|---|---|-------------|------------------|-----------------|
|   | <b>2012</b>                               | <b>2011</b> | <b>\$ Change</b> | <b>% Change</b> |
| Net cash provided by (used in) investing activities | \$ 3,049                                  | \$ (11,927) | \$ 14,976        | 125.6%          |

Fiscal 2012:

For the nine months ended June 30, 2012, our investing activities provided \$3.0 million of cash primarily due to \$13.1 million received from the sale of assets to SEI and a net distribution of capital related to our Suncore joint venture of \$1.6 million; largely offset by \$9.8 million related to capital expenditures and approximately \$1.9 million related to deposits on equipment orders. See [Note 1 - Basis of Presentation](#) in the notes to the consolidated financial statements for additional disclosures related to the SEI asset sale.

We anticipate that we will need to repair or replace equipment that was damaged by the Thailand flooding. Capital expenditures have increased sharply compared to fiscal 2011 as we rebuild our production capacity. We expect our capital expenditures will be funded primarily by insurance proceeds that we expect to receive.

Fiscal 2011:

For the nine months ended June 30, 2011, our investing activities consumed \$11.9 million of cash primarily due to a \$12.0 million investment in our Suncore joint venture and \$3.3 million related to capital expenditures; partially offset by consulting fees received associated with our Suncore joint venture of \$5.5 million. See [Note 14 - Suncore Joint Venture](#) in the notes to the consolidated financial statements for additional information related to our Suncore joint venture.

Net Cash Provided By Financing Activities*(in thousands, except percentages)*

|   | For the Nine Months Ended June 30, |           |            |          |
|---|------------------------------------|-----------|------------|----------|
|   | 2012                               | 2011      | \$ Change  | % Change |
| Net cash provided by financing activities | \$ 5,406                           | \$ 14,309 | \$ (8,903) | (62.2)%  |

Fiscal 2012:

For the nine months ended June 30, 2012, our financing activities provided cash primarily due to borrowings from our bank credit facility. See [Note 1 - Basis of Presentation](#) in the notes to the consolidated financial statements for information related to borrowings from our bank credit facility.

Fiscal 2011:

For the nine months ended June 30, 2011, our financing activities provided cash primarily from a private placement transaction totaling approximately \$9.7 million and from borrowings from our bank credit facility.

Liquidity and Capital Resources

Historically, we have consumed cash from operations and incurred significant net losses. We have managed our liquidity position through a series of cost reduction initiatives, borrowings from our credit facility, capital markets transactions, and the sale of assets.

As of June 30, 2012, cash and cash equivalents totaled \$20.2 million and working capital totaled approximately \$7.2 million. Working capital, calculated as current assets minus current liabilities, is a financial metric we use which represents available operating liquidity. For the three and nine months ended June 30, 2012, we incurred a net loss of \$9.0 million and \$32.6 million, respectively. Net cash used in operating activities for the nine months ended June 30, 2012 totaled \$4.0 million.

With respect to measures taken to improve liquidity:

- **Credit Facility:** In November 2010, we entered into a Credit and Security Agreement (credit facility) with Wells Fargo Bank (Wells Fargo). The credit facility provides us with a revolving credit of up to \$35 million through November 2013 that can be used for working capital requirements, letters of credit, and other general corporate purposes. The credit facility is secured by the Company's assets and is subject to a borrowing base formula based on the Company's eligible accounts receivable and inventory accounts.

Our credit facility contains customary representations and warranties, and affirmative and negative covenants, including, among other things, cash balance and excess availability requirements, minimum tangible net worth and EBITDA covenants, and limitations on liens and certain additional indebtedness and guarantees. The covenants are written such that as long as we maintain a minimum cash balance and excess availability requirement, the other covenants are not required to be met. As of June 30, 2012, we were in compliance with this financial covenant.

Our credit facility also contains certain events of default, including a subjective acceleration clause. Under this clause, Wells Fargo may declare an event of default if it believes in good faith that our ability to pay all or any portion of our indebtedness with Wells Fargo or to perform any of our material obligations under the credit facility has been impaired, or if it believes in good faith that there has been a material adverse change in the business or financial condition of the Company. If an event of default is not cured within the grace period (if applicable), then Wells Fargo may, among other things, accelerate repayment of amounts borrowed under the credit facility, cease making advances under the credit facility, or take possession of the Company's assets that secure its obligations under the credit facility. We do not anticipate at this time any change in the business or financial condition of the Company that could be deemed a material adverse change by Wells Fargo. Wells Fargo has confirmed that they do not consider the flooding at our contract manufacturer's facility in Thailand to be a material adverse change in the business or financial condition of the Company.



On December 21, 2011, we entered into a First Amendment to the credit facility which increased our eligible borrowing base by up to \$10 million by adding to the borrowing base formula 85% of the appraised value of the Company's equipment and 50% of the appraised value of the Company's real estate. In addition, Wells Fargo reduced our restrictions under the excess availability financial covenant requirement from \$7.5 million to \$3.5 million through December 2012. The interest rate on outstanding borrowings was increased to LIBOR rate plus four percent. The credit facility will return to its previous agreement terms on the earlier of (i) December 31, 2012, or (ii) the date that we receive insurance proceeds of not less than \$30.0 million in the aggregate applicable to the flooding of our primary contract manufacturer in Thailand.

On June 14, 2012, we entered into a Second Amendment to the credit facility, which amended among other things, the borrowing base increase under the First Amendment, which is subject to automatic reductions to (i) \$8.1 million on July 1, 2012; and to (ii) \$3.1 million on January 1, 2013. The Second Amendment automatically reduces the \$8.1 million and \$3.1 million thresholds referenced above to \$5 million and \$0, respectively, if the sale of certain assets does not occur. The amended credit facility no longer includes certain assets in the potential borrowing base including certain machinery and equipment and real estate. The Second Amendment was filed as Exhibit 10.1 to this Quarterly Report on Form 10-Q.

As of June 30, 2012, we had a \$22.3 million LIBOR rate loan outstanding under our credit facility, with an interest rate of 4.5%. As of August 3, 2012, the outstanding balance under this credit facility totaled approximately \$17.0 million. As of June 30, 2012, the credit facility also had \$2.4 million reserved for nine outstanding stand-by letters of credit, leaving a remaining \$0.7 million borrowing availability balance under this credit facility. We expect at least 70% of the total amount of credit under this credit facility to be available for use over the next year.

- **Equity Facility:** In August 2011, we entered into a committed equity line financing facility (equity facility) with Commerce Court Small Cap Value Fund, Ltd. (Commerce Court) whereby Commerce Court has committed, upon issuance of a draw-down request by us, to purchase up to \$50 million worth of our common stock over a two-year period, subject to our common stock trading above \$4 per share, as adjusted for the reverse stock split, during the draw down period, unless a waiver is received. As of June 30, 2012, there have been no draw down transactions completed under this equity facility.
- **Sale of Fiber Optics-related Assets:** The sale of our vertical cavity surface emitting lasers (VCSEL)-based and enterprise-related product lines provided \$13.1 million of cash and this sale is expected to simplify our operating structure and reduce our fixed costs.
- **Impact From Thailand Flood:** In November 2011, we entered into an agreement with our contract manufacturer in Thailand whereby our contract manufacturer agreed to purchase equipment to rebuild certain manufacturing lines damaged by flood waters and we agreed to reimburse our contract manufacturer for the cost of the equipment out of insurance proceeds that we expect to receive. During the three months ended June 30, 2012, we capitalized the cost of our new manufacturing lines of approximately \$3.7 million and recorded an equipment capital lease obligation of \$2.9 million, net of equipment deposits. Additionally, we restructured our outstanding payables owed to our contract manufacturer, which delayed payments to future dates to coincide with expected timing of insurance proceeds. Our contract manufacturer is required under its production agreement with us to reimburse us for losses to inventory and equipment incurred while at their facility. We are working with our contract manufacturer (and our contract manufacturer's insurance carrier) to receive insurance proceeds to cover the direct damages to our assets that were impacted by the flood. We are not a named beneficiary of our contract manufacturer's insurance policy. The timing and amounts of the recovery from the contract manufacturer, including insurance proceeds, are uncertain at this time. Insurance recoveries related to inventory and equipment destroyed by the Thailand flood will be recognized when they become realized. See [Note 9 - Flood-related Losses](#) in the notes to the consolidated financial statements for additional disclosures related to the impact of the Thailand flood on our operations.

We believe that our existing balances of cash and cash equivalents, the agreement with our contract manufacturer to delay payment terms and purchase equipment on our behalf, benefits expected from insurance proceeds, and amounts expected to be available under our credit and equity facilities will provide us with sufficient financial resources to meet our cash requirements for operations, working capital, and capital expenditures for the next twelve months.

However, in the event of unforeseen circumstances, unfavorable market or economic developments, unfavorable results from operations, any failure to receive expected proceeds from insurance, material claims made under the indemnification provisions of our Master Purchase Agreement with SEI, or if Wells Fargo declares an event of default on the credit facility, we may have to raise additional funds by any one or a combination of the following: issuing equity, debt or convertible debt, or selling certain product lines and/or portions of our business. There can be no assurance that we will be able to raise additional funds on terms acceptable to us, or at all. A significant contraction in the capital markets, particularly in the technology sector, may make it difficult for us to raise additional capital if or when it is required, especially if we experience negative operating results. If adequate capital is not available to us as required, or is not available on favorable terms, our business, financial condition, results of operations, and cash flows may be adversely affected.

### **Contractual Obligations and Commitments**

See [Note 11 - Commitments and Contingencies](#) in the notes to the consolidated financial statements for disclosures related to our contractual obligations and commitments.

### **Critical Accounting Policies**

See Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the fiscal year ended September 30, 2011 for disclosures related to our critical accounting policies.

In October 2011, flood waters infiltrated the offices and manufacturing floorspace of our primary contract manufacturer's facility in Thailand and suspended all production. We have designated our accounting policy related to estimating losses associated with the Thailand flood as a critical accounting policy effective during the nine months ended June 30, 2012. See [Note 9 - Flood-related Losses](#) in the notes to the consolidated financial statements for additional disclosures related to the impact of the Thailand flood on our operations.

### **Recent Accounting Pronouncements**

See [Note 2 - Recent Accounting Pronouncements](#) in the notes to the consolidated financial statements for disclosures related to recent accounting pronouncements.

### **Restructuring Accruals**

See [Note 8 - Accrued Expenses and Other Current Liabilities](#) in the notes to the consolidated financial statements for disclosures related to our severance and restructuring-related accrual accounts.

### **Segment Data and Related Information**

See [Note 13 - Segment Data and Related Information](#) in the notes to the consolidated financial statements for disclosures related to business segment revenue, geographic revenue, significant customers, and operating loss by business segment.

### **Executive Officer**

See [Note 15 - Subsequent Events](#) in the notes to the consolidated financial statements for disclosures related to the recently announced resignation of the Company's Executive Chairman.

## **ITEM 3. Quantitative and Qualitative Disclosures About Market Risk**

For quantitative and qualitative disclosures about market risk affecting the Company, see Item 7A - Quantitative and Qualitative Disclosures About Market Risk in our Annual Report on Form 10-K for the fiscal year ended September 30, 2011. We do not believe the Company's exposure related to market risk has changed materially since September 30, 2011.

**ITEM 4. Controls and Procedures**

**a. Evaluation of Disclosure Controls and Procedures**

The Company maintains disclosure controls and procedures designed to ensure that information required to be disclosed in reports filed under the Securities Exchange Act of 1934 (the "Act") is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to management, including its Chief Executive Officer (Principal Executive Officer) and Chief Financial Officer (Principal Financial and Accounting Officer), as appropriate, to allow timely decisions regarding required disclosure.

Management, under the supervision and with the participation of its Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) promulgated under the Act) as of June 30, 2012. Based on this evaluation, management concluded that the Company's disclosure controls and procedures were effective. As a result, management concluded that the Company's condensed consolidated financial statements included in this Quarterly Report on Form 10-Q present fairly, in all material respects, the Company's condensed consolidated financial position, results of operations, and cash flows as of the dates, and for the periods, presented in conformity with GAAP.

Attached as exhibits to this Quarterly Report on Form 10-Q are certifications of the Company's Chief Executive Officer and Chief Financial Officer, which are required in accordance with Rule 13a-14 of the Act. This Evaluation of Disclosure Controls and Procedures section includes information concerning management's evaluation of disclosure controls and procedures referred to in those certifications and, as such, should be read in conjunction with the certifications of the Company's Chief Executive Officer and Chief Financial Officer.

**b. Changes in Internal Control over Financial Reporting**

Except for the changes discussed in section 'c' below related to inventory reserve transactions and inventory held by third parties, there were no changes in the Company's internal control over financial reporting during the quarter ended June 30, 2012 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**c. Completed Remediation Actions that Addressed Internal Control Weaknesses**

A "material weakness" is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim consolidated financial statements will not be prevented or detected on a timely basis. As previously reported in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2011 and Quarterly Report on Form 10-Q for the quarterly periods ended December 31, 2011 and March 31, 2012, management identified the following material weaknesses in the Company's internal control over financial reporting:

**1) Control activities related to certain inventory reserve transactions**

The Company did not maintain effective controls over certain inventory reserve transactions. Specifically, the Company did not have effectively designed controls to ensure that certain inventory reserves were taken on excess material in accordance with GAAP. These controls did not adequately substantiate forward-looking demand for certain inventory items.

**2) Control activities related to certain inventory held by third parties**

The Company did not maintain effective controls over certain inventory held by third parties. Specifically, a reconciliation of inventory held by third parties identified certain reconciling items that were not properly verified; therefore, controls were not designed and in place to provide reasonable assurance that the inventory held by third parties was recorded in accordance with GAAP.

In response to the identified material weaknesses described above, the Company has dedicated resources to improving its control environment and management believes that remediation actions placed into service since September 30, 2011 have addressed these material weaknesses. In particular, the Company has implemented the measures described below to remediate these material weaknesses.

**1) Control activities related to certain inventory reserve transactions**

As of March 31, 2012 and June 30, 2012, the Company defined and implemented a new process for the quarterly review and recording of inventory reserves that involves identification of potentially excess material above a specified threshold and requires detailed documentation and substantiation of forward looking demand to ensure inventory reserves are taken on excess material. The Company plans to continue to perform this control on a quarterly basis.

**2) Control activities related to certain inventory held by third parties**

As of March 31, 2012 and June 30, 2012, the Company defined lower thresholds for the reconciliation of third party inventory, expanded documentation of the reviews performed, and records an inventory reserve for any unreconciled amounts. The Company plans to continue to perform this control on a quarterly basis.

Management intends to continue to monitor the effectiveness of these actions and will make changes to the action plans if deemed necessary and appropriate.

**d. Limitations on the Effectiveness of Internal Control over Financial Reporting**

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls or our internal controls over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by individual acts, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based, in part, upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with associated policies or procedures. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

**PART II. Other Information**

**ITEM 1. Legal Proceedings**

See [Note 11 - Commitments and Contingencies](#) in the notes to our consolidated financial statements for disclosures related to our legal proceedings.

**ITEM 1A. Risk Factors**

In addition to the other information set forth in this report, you should carefully consider the risk factors discussed in Part I, Item 1A. "Risk Factors" in our Annual Report on Form 10-K for the year ended September 30, 2011, which could materially affect our business, financial condition or future results. We do not believe the Company's risks have changed materially since we filed our Form 10-K on December 29, 2011. The risks described in our Annual Report on Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us also may materially adversely affect our business, financial condition and/or operating results. There have been no material changes in our risk factors as disclosed in our Annual Report other than the following:

***The successful transition of the part of our business sold to a subsidiary of Sumitomo Electric Industries, LTD (SEI), will be subject to additional risks and uncertainties that may have an adverse material effect on our performance.***

In May 2012, we sold certain assets and transferred certain inventory purchase obligations associated with our Fiber Optics segment to SEI and the successful transition of this part of our business will also be subject to additional risks and uncertainties. The assets included in the transaction were transferred to SEI and as part of separate transitional service agreements, we have agreed to support the operations related to this asset sale in some cases over several years. These initiatives can be time-consuming, disruptive to our operations, and costly in the short-term. However, there can be no assurance that these initiatives will be successful. Any of these uncertainties could materially adversely affect our operating results and customer relationships.

**ITEM 6. Exhibits**

| <b><u>Exhibit Number</u></b> | <b><u>Exhibit Description</u></b>   |
|------------------------------|---|
| 10.1**                       | Second Amendment to the Credit and Security Agreement, dated June 14, 2012, between Wells Fargo Bank National Association and the Company |
| 31.1**                       | Certificate of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002  |
| 31.2**                       | Certificate of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002  |
| 32.1**                       | Certificate of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002  |
| 32.2**                       | Certificate of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002  |

\*\* Filed herewith

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**EMCORE CORPORATION**

Date: **August 8, 2012**

By: **/s/ Hong Hou**  
Hong Q. Hou, Ph.D.  
Chief Executive Officer  
(Principal Executive Officer)

Date: **August 8, 2012**

By: **/s/ Mark Weinswig**  
Mark Weinswig  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

**SECOND AMENDMENT TO CREDIT AND SECURITY AGREEMENT**

THIS SECOND AMENDMENT (the "Amendment"), dated June 14, 2012, is entered into by and between **EMCORE CORPORATION**, a New Jersey corporation ("Company"), and **WELLS FARGO BANK, NATIONAL ASSOCIATION** ("Wells Fargo"), acting through its Wells Fargo Capital Finance operating division.

RECITALS

Company and Wells Fargo are parties to a Credit and Security Agreement dated November 11, 2010 (as amended from time to time, the "Credit Agreement"). Capitalized terms used in these recitals have the meanings given to them in the Credit Agreement unless otherwise specified.

The Company has requested that certain amendments be made to the Credit Agreement, which Wells Fargo is willing to make pursuant to the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the premises and of the mutual covenants and agreements herein contained, it is agreed as follows:

1. Amendments. The Credit Agreement is hereby amended as follows:

(a) Section 1.2(a) of the Credit Agreement is hereby deleted and replaced as follows:

(a) Borrowing Base. The borrowing base (the "Borrowing Base") is an amount equal to:

(i) 85% or such lesser percentage of Eligible Accounts as Wells Fargo in its sole discretion may deem appropriate; provided, that the percentage shall be 85% so long as the dilution of the Accounts is 5% or less, plus

(ii) 85% or such lesser percentage of Eligible Foreign Accounts (which are not more than 120 days past invoice date) as Wells Fargo in its sole discretion may deem appropriate, provided, that the percentage shall be 85% so long as the dilution of the Accounts is 5% or less or \$10,000,000.00, whichever is less, plus

(iii) \$9,523,808.00 which dollar figure shall be reduced to \$8,100,000.00 on July 1, 2012, which amount shall be further reduced on August 1, 2012 and on the first day of each month thereafter by \$101,250.00, which amount shall be further reduced to \$3,100,000.00 on January 1, 2013, and which amount shall be further reduced on February 1, 2013, and on the first day of each month thereafter by \$41,891.89.

In the event the Company does not sell its equity interest in Emcore Solar New Mexico to Folium as currently contemplated, the \$8,100,000.00 and \$3,100,000 figures referenced above shall automatically be replaced by \$5,000,000.00 and \$0.00, respectively.

(iv) 85% or such lesser percentage of the Net Orderly Liquidation Value of Eligible Inventory (consisting of finished goods or raw materials) as Wells Fargo in its sole discretion may deem appropriate, or \$10,000,000.00, whichever is less, less

(v) the Borrowing Base Reserve, less

(vi) Indebtedness (including amounts outstanding under letters of credit) that Company owes Wells Fargo that has not been advanced on the Revolving Note, less

(vii) Indebtedness that is not otherwise described in Section 1, including Indebtedness that Wells Fargo in its sole discretion finds on the date of determination to be equal to Wells Fargo's net credit exposure with respect to any rate hedge agreement, derivative, foreign exchange, deposit, treasury management or similar transaction or arrangement extended to Company by Wells Fargo and any Indebtedness owed by Company to Wells Fargo Merchant Services, L.L.C.

2. No Other Changes. Except as explicitly amended by this Amendment, all of the terms and conditions of the Credit Agreement shall remain in full force and effect and shall apply to any advance or letter of credit thereunder.

3. Amendment Fee. The Company shall pay Wells Fargo a fully earned, non-refundable fee in the amount of \$7,500.00 in consideration of Wells Fargo's execution and delivery of this Amendment, which fee shall be immediately due and payable.

4. Conditions Precedent. This Amendment shall be effective when Wells Fargo shall have received an executed original hereof, together with each of the following, each in substance and form acceptable to Wells Fargo in its sole discretion:

(a) The Acknowledgment and Agreement of Guarantors set forth at the end of this Amendment, duly executed by each Guarantor.

(b) A Certificate of the Secretary of the Company certifying as to (i) the resolutions of the board of directors of the Company approving the execution and delivery of this Amendment, (ii) the fact that the articles of incorporation and bylaws of the Company, which were certified and delivered to Wells Fargo pursuant to the Certificate of Authority of the Company's secretary or assistant secretary dated November 11, 2010 continue in full force and effect and have not been amended or otherwise modified except as set forth in the Certificate to be delivered, and (iii) certifying that the officers and agents of the Company who have been certified to Wells Fargo, pursuant to the Certificate of Authority of the Company's secretary or assistant secretary dated November 11, 2010, as being authorized to sign and to act on behalf of the Company continue to be so authorized or setting forth the sample signatures of each of the officers and agents of the Company authorized to execute and deliver this Amendment and all other documents, agreements and certificates on behalf of the Company.

(c) Such other matters as Wells Fargo may require.

5. Representations and Warranties. The Company hereby represents and warrants to Wells Fargo as follows:

(a) The Company has all requisite power and authority to execute this Amendment and any other agreements or instruments required hereunder and to perform all of its obligations hereunder, and this Amendment and all such other agreements and instruments has been duly executed and delivered by the Company and constitute the legal, valid and binding obligation of the Company, enforceable in accordance with its terms.

(b) The execution, delivery and performance by the Company of this Amendment and any other agreements or instruments required hereunder have been duly authorized by all necessary corporate action and do not (i) require any authorization, consent or approval by any governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign, (ii) violate any provision of any law, rule or regulation or of any order, writ, injunction or decree presently in effect, having applicability to the Company, or the articles of incorporation or by-laws of the Company, or (iii) result in a breach of or constitute a default under any indenture or loan or credit agreement or any other agreement, lease or instrument to which the Company is a party or by which it or its properties may be bound or affected.

(c) All of the representations and warranties contained in Article V of the Credit Agreement are correct on and as of the date hereof as though made on and as of such date, except to the extent that such representations and warranties relate solely to an earlier date.

6. References. All references in the Credit Agreement to "this Agreement" shall be deemed to refer to the Credit Agreement as amended hereby; and any and all references in the Security Documents to the Credit Agreement shall be deemed to refer to the Credit Agreement as amended hereby.



7. No Waiver. The execution of this Amendment and the acceptance of all other agreements and instruments related hereto shall not be deemed to be a waiver of any Default or Event of Default under the Credit Agreement or a waiver of any breach, default or event of default under any Security Document or other document held by Wells Fargo, whether or not known to Wells Fargo and whether or not existing on the date of this Amendment.

8. Release. The Company, and each Guarantor signing the Acknowledgment and Agreement of Guarantors set forth below, hereby absolutely and unconditionally releases and forever discharges Wells Fargo, and any and all participants, parent corporations, subsidiary corporations, affiliated corporations, insurers, indemnitors, successors and assigns thereof, together with all of the present and former directors, officers, agents and employees of any of the foregoing, from any and all claims, demands or causes of action of any kind, nature or description, whether arising in law or equity or upon contract or tort or under any state or federal law or otherwise, which the Company or each Guarantor has had, now has or has made claim to have against any such person for or by reason of any act, omission, matter, cause or thing whatsoever arising from the beginning of time to and including the date of this Amendment, whether such claims, demands and causes of action are matured or unmatured or known or unknown.

9. Costs and Expenses. The Company hereby reaffirms its agreement under the Credit Agreement to pay or reimburse Wells Fargo on demand for all costs and expenses incurred by Wells Fargo in connection with the Loan Documents, including without limitation all reasonable fees and disbursements of legal counsel. Without limiting the generality of the foregoing, the Company specifically agrees to pay all title insurance premiums, fees and disbursements of counsel to Wells Fargo for the services performed by such counsel in connection with the preparation of this Amendment and the documents and instruments incidental hereto. The Company hereby agrees that Wells Fargo may, at any time or from time to time in its sole discretion and without further authorization by the Company, make a loan to the Company under the Credit Agreement, or apply the proceeds of any loan, for the purpose of paying any such premiums, fees, disbursements, costs and expenses and the fee required under Paragraph 3 of this Amendment.

10. Sale of Assets. The Company wishes to dispose of Company's equity interests in Emcore Solar New Mexico (the "New Mexico Equity Interests"). Absent a consent from Wells Fargo, the disposal of the New Mexico Equity Interests would constitute an Event of Default under Section 5.17 of the Credit Agreement. Wells Fargo hereby consents to the sale of the Non-Core Assets so long as the proceeds of the same are applied in full to outstanding Advances or used in part to pay the outstanding balance of the Advances to \$0.00.

11. Miscellaneous. This Amendment and the Acknowledgment and Agreement of Guarantors may be executed in any number of counterparts, each of which when so executed and delivered shall be deemed an original and all of which counterparts, taken together, shall constitute one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed as of the date first above written.

**EMCORE CORPORATION**, a New Jersey corporation

By: /s/ Hong Q. Hou  
Its: Chief Executive Officer

**WELLS FARGO Bank, National Association**

By: /s/ Joe Primack  
Its Authorized Signatory

**EMCORE CORPORATION**  
**CERTIFICATION PURSUANT TO SECTION 302**  
**OF THE SARBANES-OXLEY ACT OF 2002**

I, Hong Q. Hou, Ph.D. certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of EMCORE Corporation ("Report");
2. Based on my knowledge, this Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Report;
3. Based on my knowledge, the financial statements, and other financial information included in this Report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this Report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Report based on such evaluation; and
  - d. Disclosed in this Report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: **August 8, 2012**

By: **/s/ Hong Hou**  
Hong Q. Hou, Ph.D.  
Chief Executive Officer  
(Principal Executive Officer)

**EMCORE CORPORATION**  
**CERTIFICATION PURSUANT TO SECTION 302**  
**OF THE SARBANES-OXLEY ACT OF 2002**

I, Mark B. Weinswig, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of EMCORE Corporation ("Report");
2. Based on my knowledge, this Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Report;
3. Based on my knowledge, the financial statements, and other financial information included in this Report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this Report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Report based on such evaluation; and
  - d. Disclosed in this Report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: **August 8, 2012**

By: **/s/ Mark Weinswig**  
Mark B. Weinswig  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

**STATEMENT REQUIRED BY 18 U.S.C. §1350, AS ADOPTED  
PURSUANT TO §906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of EMCORE Corporation (the "Company") for the quarterly period ended June 30, 2012, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Hong Q. Hou, Ph.D., Chief Executive Officer (Principal Executive Officer) of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- 1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- 2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: **August 8, 2012**

By: **/s/ Hong Hou**  
Hong Q. Hou, Ph.D.  
Chief Executive Officer  
(Principal Executive Officer)

*A signed original of this written statement required by Section 906 has been provided to EMCORE Corporation and will be retained by EMCORE Corporation and furnished to the Securities and Exchange Commission or its staff upon request. This certification has not been, and shall not be deemed to be, filed with the Securities and Exchange Commission.*

**STATEMENT REQUIRED BY 18 U.S.C. §1350, AS ADOPTED  
PURSUANT TO §906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of EMCORE Corporation (the "Company") for the quarterly period ended June 30, 2012, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Mark B. Weinswig, Chief Financial Officer (Principal Financial and Accounting Officer) of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- 1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- 2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: **August 8, 2012**

By: **/s/ Mark Weinswig**

Mark B. Weinswig

Chief Financial Officer

(Principal Financial and Accounting Officer)

*A signed original of this written statement required by Section 906 has been provided to EMCORE Corporation and will be retained by EMCORE Corporation and furnished to the Securities and Exchange Commission or its staff upon request. This certification has not been, and shall not be deemed to be, filed with the Securities and Exchange Commission.*